
NEW JERSEY HOUSING AND MORTGAGE FINANCE AGENCY

PRODUCING... PRESERVING... PROVIDING
HOUSING THAT NEW JERSEY RESIDENTS CAN AFFORD

MORTGAGE PROGRAM POLICY AND PROCEDURES FOR PARTICIPATING LENDERS

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SELLER'S GUIDE

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PART I GENERAL

This Seller's Guide is applicable to all Mortgage Programs.

SECTION 1.1 DEFINITIONS

ACCOUNTING GUIDE. The guide, as it may be amended from time to time by the Agency, containing the mortgage accounting rules governing the Seller's Guide and the Servicing Guide and incorporated as part of the Servicing Guide.

AGENCY. The New Jersey Housing and Mortgage Finance Agency (HMFA).

BRIDGE LOAN. A form of an interim loan, generally made between a short term loan and a permanent (long term) loan, in the event that the borrower needs to have more time before taking the permanent, long term financing.

CO-SIGNER. An individual who signs the Mortgage Note, but not the Mortgage, with the Mortgagor and is equally responsible for the terms of the Mortgage Loan but does not have an interest in the property.

CO-MORTGAGOR. An individual who signs the Mortgage Note and the Mortgage and is equally responsible for the terms of the Mortgage Note and Mortgage Loan with an interest in the property.

CODE. The Internal Revenue Code of 1986, as amended, together with the U.S. Treasury Regulations appurtenant thereto, letter rulings of the Internal Revenue Service and interpretations of the Code supplied by the Agency's bond counsel and courts of competent jurisdiction. In particular, Section 143 of the Code sets forth basic requirements for Qualified Mortgage Revenue Bonds.

COMMUNITY HOMEBUYER PROGRAM. A variation of the Home Buyer Program that permits expanded underwriting guidelines and certain other requirements as set forth in the Term Sheet.

DELEGATED UNDERWRITER. An employee or owner of participating lender who meets the Delegated Underwriting Criteria established by the Agency for delegated underwriting and who is authorized by the Agency to underwrite and to make underwriting decisions about loans to be purchased by the Agency without prior Agency approval or re-underwriting except for issues related to Tax and Program Compliance.

DIRECT ENDORSEMENT LENDER. Participating Lender approved by HUD to originate, underwrite and close loans with FHA insurance without prior approval from HUD.

ELIGIBLE PROPERTY. A permanently affixed lawful residential building, together with the land or common interest in the land and common areas in which it is located, in the State of New Jersey which is (i) an existing Single Family Dwelling (ii) a newly constructed Single Family Dwelling which has

never been occupied; (iii) a 2-4 family dwelling that has been used as a residence for the previous five years; or (iv) a 2 family dwelling located in a Target Area that will be used for residential purposes (need not meet the five year requirement). Properties may be under fee simple, condominium or cooperative owners. Properties must not exceed the Agency's maximum permitted purchase price. A property shall not qualify as an Eligible Property if any portion is used or intended to be used for non-residential purposes unless a waiver has been granted in advance. A building in which the mortgagor cannot legally occupy a unit within sixty days of closing shall not qualify as an eligible property.

ESCROWS. Payments required to be made under the terms of a Mortgage Loan by Mortgagor and to be paid into an escrow account to cover expenses, which shall include, but not be limited to, all taxes and special assessments, as well as hazard and flood insurance premiums, and mortgage insurance premiums.

FHA. Federal Housing Administration.

FHLMC. Federal Home Loan Mortgage Corporation (Freddie Mac).

FIRM COMMITMENTS TO MORTGAGORS. Firm Commitments to Mortgagors must be similar to the type the Seller would ordinarily provide prospective homebuyers where financing was not provided from the proceeds of a tax-exempt bond.

FNMA. Federal National Mortgage Association (Fannie Mae).

HBP. Home Buyers Program. The first-time and urban home buyer residential mortgage loan purchase program to be financed from time to time by the issuance of Qualified Mortgage Revenue Bonds.

INTERNET LOAN RESERVATION (ILR) SYSTEM. The Agency's internet based loan registration system through which Sellers register their loans with the Agency, track status, and receive approval to proceed to loan closing.

LOAN GUARANTY CERTIFICATE. VA form 26-1899, or equivalent successor, evidencing guaranty of mortgage loans by the Veterans Administration.

LOAN NOTE GUARANTEE. Form RHS 1980-17, or equivalent successor, evidencing guaranty of mortgage loans by the Rural Housing Services..

MI. A mortgage insurer licensed to do business in the state and qualified to provide insurance on mortgage loans purchased by FNMA/FHLMC, and approved by the Agency.

MITAS. Computer platform currently used by the Agency.

MORTGAGE INSURANCE CERTIFICATE. FHA insurance evidenced by the FHA Mortgage Insurance Certificate.

MORTGAGE LOAN. A first purchase money loan evidenced by a note which is secured by a first mortgage lien on an Eligible Property, subject only to liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, joint driveways, sewer rights, party wall, rights-of-way or other easements or encroachments, provided that none of the foregoing, in the opinion of the Agency, materially affect the security for the Mortgage Loan.

MORTGAGE POOL INSURANCE. Supplemental Mortgage Insurance coverage provided by a Mortgage Insurance company that insures the Agency against loan losses in excess of the loss coverage provided by the primary mortgage insurance coverage.

MORTGAGE PURCHASE AGREEMENT. That certain agreement between the Agency and the Seller to which the Agency agrees to purchase from Seller Mortgage Loans in accordance with the Seller's Guide and applicable Term Sheet.

MORTGAGE SERVICING AGREEMENT. An agreement between the Agency and servicer under which the servicer agrees to service Mortgage Loans purchased by the Agency in connection with the Mortgage Program. Note that the Mortgage Servicing Agreements are in place for loan portfolios that predate the current requirement that all servicing is acquired by the Agency as part of the mortgage purchase. When the Agency is master servicer of a loan portfolio the subservicers of such portfolios are subject to the terms and conditions of a subservicing agreement with the Agency.

MORTGAGOR. The person or persons who executed the mortgage instrument securing a Mortgage Loan together with the maker or makers of the note evidencing said Mortgage Loan (if any such person is not the maker of the note), all of whom shall be natural persons. The term "Mortgagor" shall also include natural persons who have assumed the obligations of a Mortgagor. The term Mortgagor does not include a mere note co-signer who will not have an interest in the dwelling.

MULTIPLE UNIT DWELLING. An existing building which consists of two, three or four residential dwelling units one of which must be occupied by the Mortgagor. Dwelling units mean a single unified combination of rooms that is designed for residential use by one family. All 2-4 family dwellings outside of Target Area must have been occupied as a residence for at least five years immediately preceding the closing date, provided, that a unit may have been vacant during such period if the unit was, from the time previously occupied as a residence, continuously held out for residential use and not occupied for any portion of such period in connection with a commercial or business use. If located in a Target Area, may be a 2 family dwelling that does not have to meet the 5 year requirement.

PRIOR APPROVAL. The approval given by the Agency after review of documents evidencing compliance with the Mortgage Loan eligibility and processing requirements of the Seller's Guide; upon which the Seller may issue a Firm Commitment to Mortgagor.

PROPERTY VALUE. The lower of (i) the appraised value of the property securing the Mortgage Loan at the time the Mortgage Loan is closed or (ii) the purchase price paid for the property by Mortgagor.

PURCHASE DATE. The date upon which payment is made to the Seller with respect to any Mortgage Loan sold to the Agency by the Seller under the Mortgage Purchase Agreement.

RECAPTURE. The Code requirement applicable to Mortgage Revenue Bond funded Mortgage Loans closed on or after January 1, 1991, with tax exempt bond financing are subject to a repayment of the interest savings to the IRS if a property is sold within the first nine (9) years after closing. The maximum recapture amount is 6.25% of the original loan amount or 50% of the net appreciation. For more complete information, see the discussion of Recapture on the Agency's website.

RHS. U. S. Department of Agriculture Rural Development.

SELLER. A mortgage lender who has entered into a Mortgage Purchase Agreement with the Agency.

SELLER'S GUIDE. This guide, as it may be amended from time to time by the Agency, containing the rules governing the delivery of Mortgage Loans purchased by the Agency from the Seller under the Mortgage Purchase Agreement.

SINGLE FAMILY DWELLING. A residential building designed for use by one family, or a unit designed for residential use by one family, the owner of which unit owns an undivided interest in the underlying real estate. The term Single Family Dwelling may include a single unit condominium or factory made housing that is permanently affixed to real property. The term also includes property, owned in common with others, which is necessary or contributes to the use and enjoyment of such a structure or unit.

STATEWIDE. The geographical designation for loans originated throughout the state but outside of the Target areas.

TARGET AREA (also, "Eligible Neighborhood" or "Urban Target Area"). Any of the geographical areas of the state which are eligible in accordance with Section 103A of the Internal Revenue Code of 1954 and Section 146 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

TERM SHEET. The written terms and conditions prepared by the Agency for each of its loan products. The Term Sheets describe the loan type and loan parameters and conditions that have to be met for the loan to be purchased by the Agency.

VA. Veteran's Administration.

1.2 Amendments

This Seller's Guide may be amended or supplemented from time to time. The updated Seller's Guide will be posted on the Agency's website and forwarded by bulletin to the Sellers.

1.3 Reliance on Seller's Warranties

The Agency expressly relies on each Seller to satisfy fully each of the warranty requirements set forth in the Mortgage Purchase Agreement at all times as they pertain to the Seller and to the Mortgage Loans delivered or to obtain a written waiver from the Agency.

1.4 Disclosure

Seller shall comply with all requirements of applicable State and Federal laws including, but not limited to, the Fair Credit Reporting Act, Equal Credit Opportunity Act (ECOA), Real Estate Settlement Procedure Act, (RESPA), S.A.F.E. Mortgage Licensing Act (federal and New Jersey) and the Truth in Lending Act.

1.5 Compliance with FHA/VA/RHS/MI Requirements

Lenders must comply with all requirements that FHA, VA, RHS and the Mortgage Insurer have for mortgages that they insure or guarantee. The lender must not take any action that might prevent us from recovering the full amount due under the VA or RHS guaranty, or the full claim under the FHA or MI insurance contract. Failure to provide various certificates of insurance within 120 days of loan closing will subject the mortgage to repurchase by the originating lender.

PART II REQUIREMENTS FOR DISTRIBUTION OF LOAN FUNDS

SECTION 2.1 PRELIMINARY REQUIREMENTS

2.101 Terms of Sale. Each sale of a Mortgage Loan to the Agency shall be subject to the following terms and conditions:

- (a) As of the Mortgage Loan closing date:
 - 1. The Mortgage Loan was lawful under all applicable local, state and federal laws, rules and regulations which govern the affairs of the Seller and the Mortgagor, including without limitation all applicable real estate settlement procedures, truth-in-lending and anti-discrimination laws.
 - 2. The Seller has complied and the Mortgage Loan complies with all the terms, conditions and requirements of the Seller's Guide unless any such terms, conditions and requirements have been waived by the Agency in writing.
 - 3. The Mortgage Loan application was taken and the related Firm Commitment to Mortgagor was made. The Mortgage Loan was made to finance the purchase of an Eligible Property and all improvements so financed have been fully completed or monies have been placed in escrow. The Mortgage Loan shall have been closed by the Seller and shall not be made to refinance an existing mortgage loan, except in the case of qualified rehabilitation loans.
 - 4. The Seller has no knowledge of any improvement or condition on or affecting the real property encumbered by the Mortgage Loan that now violates any law, regulations or code including, without limitation, applicable building, zoning and environmental protection codes and laws or regulations. Nor does the Seller know of any proposed or scheduled changes to laws, codes or regulations or local conditions that would materially affect the intended use or value of the property encumbered by the Mortgage Loan.
 - 5. The Seller has no knowledge of the real property subject to the Mortgage Loan having unrepaired damage caused by waste, fire, earthquake, windstorm, flood, tornado, wood boring insects or other causes.
 - 6. The Seller has no knowledge of any condemnation proceeding being instituted or threatened against the real property or improvements thereon.
 - 7. The Seller has no reason to believe that any representation or warranty set forth in the Mortgagor's Affidavit (HMFA 300) or the Property Seller's Affidavit (HMFA 161) is untrue or incorrect, or has become untrue or incorrect between the time of making and the time of loan closing. Nor does the Seller have any knowledge that the Mortgagor is not a first-time home buyer, if such status is required, or is not income eligible or does not intend to personally reside in the mortgaged property.

8. The Seller has no knowledge of any facts or circumstances, economic or otherwise, which may have an adverse effect on the credit of the Mortgagor, the prospect of prompt payment of the Mortgage Loan or the value of any security thereof.
9. Mortgagor escrows have been established in compliance with RESPA and as required by the Agency. The Agency requires a two month "cushion" using the disbursement date of the escrow item.

(b) As of the Purchase Date:

1. The Mortgagor is not more than 15 days delinquent in the payment of any installments of principal, interest or other amounts due under the terms of the Mortgage Loan. The Seller must provide to the Agency, prior to loan purchase, a complete Mortgage Loan history.
2. No term, covenant or condition of the note evidencing the Mortgage Loan and the mortgage securing the Mortgage Loan has been waived, altered or modified except as consented to in writing by the Agency.
3. All necessary documents have been executed and the Seller has taken all steps to perfect the Agency's legal and record title to, and to protect the Agency's interest in, the Mortgage Loan.
4. The lien of, or estate created by, the Mortgage Loan has not been satisfied, subordinated or impaired, in whole or in part except for payment of principal and interest to purchase date. No part of any mortgaged property has been released therefrom, other than releases agreed to in writing by the Agency.
5. If a warehouse lender has provided the Seller with funding to "table fund" the Mortgage Loan, no lien shall have been recorded in favor of the warehouse lender. If the warehouse lender requires a bailee letter from the Agency, it shall have first executed HMFA #725 Warehouse Lender Representatives and Covenants regarding bailee letters.

(c) As of the Delivery Date:

1. Each mortgage, financing statement and any other document required to be registered, recorded or filed in a public office to perfect the mortgage lien has been duly and timely filed, registered or recorded in the proper public office in order to give constructive notice thereof to all subsequent purchasers or encumbrancers.

2. The Seller has complied and the Mortgage Loan complies with all the terms, conditions and requirements of the Seller's Guide unless any such terms, conditions and requirements shall have been waived by the Agency in writing.

By acceptance of payment for each Mortgage Loan on its respective Purchase Date, the Seller shall be deemed to have represented and warranted that all such conditions will have been met as of the respective dates set forth above.

- 2.102 Purchase Price. The purchase price limits for Mortgage Loans to be acquired by the Agency are set forth in the applicable Term Sheet, but in no event will exceed the maximum purchase price authorized by the Code.
- 2.103 Origination Charge. An origination charge of up to \$325 may be charged to the Mortgagor by the Seller. This origination charge is in addition to other reasonable and customary charges for costs that will be itemized on the GFE and HUD-1 Settlement Statement.
- 2.104 Points and Other Fees. Seller shall not charge points or other financing fees on Mortgage Loans unless permitted to do so as specified in the applicable Term Sheet.
- 2.105 Advertising Standards. Newspaper, radio or television advertising is an excellent method of informing the public of the availability and benefits of the Agency loans. Certain guidelines are required by the Agency for such advertisements.
- (a) Ads should indicate the benefits of Agency loans: Lower interest rate, low downpayment, maximum term, as well as the fact they are available throughout the State of New Jersey.
 - (b) Ads should be directed toward homebuyers rather than home sellers for example, phrases similar to "now is a good time to sell while rates are low...." should not be used.
 - (c) If a Seller is advertising Agency loans plus its other loans or services, the ad must clearly indicate that the terms for the Agency loans refer to those loans only. Advertising of Agency loans should be separate and distinct from other advertising of lending services within the same ad. For example, a headline which features the lower interest rate should not be used if it implies that such rate applies to other loans offered by the institution.
 - (d) Advertisement should not include the statements "no broker's fees," or "Government Program" (except as to specific reference to the New Jersey Housing and Mortgage Finance Agency).
 - (e) All advertisements that reference the Agency's mortgage program(s) must include the equal housing opportunity logo and indicate that the sponsor is an equal opportunity lender.
- 2.106 Anti-Predatory Lending. It is the policy of the Agency not to originate, purchase or accept assignment of any predatory loan, and in particular any "covered home loan" or "high-cost home loan" as defined by the New Jersey Home Ownership Security Act of 2002 ("HOSA"), N.J.S.A. 46:10B-22. Therefore, the Seller has represented in the

Mortgage Purchase Agreement that it will not sell or assign to the Agency any “covered home loan” or “high-cost home loan” as defined by the HOSA.

SECTION 2.2 DISTRIBUTION OF FUNDS

2.201 Reservation Process:

To qualify for a reservation of funds, the applicant must meet the following requirements:

- (a) Must provide a bona fide contract of sale executed by both the buyer and the seller of the property. The contract of sale must reflect a purchase price that is within the applicable purchase price limit. In case of FHA 203(b) insured loans, the contract must include a mortgage contingency clause. In addition, the contract must contain an FHA amendatory clause in its contract or as an addendum.
- (b) Must provide proof of income (three most recent pay stubs or Internal Revenue Service tax return form 1040) which appears to reflect the applicant's income eligibility and ability to meet the applicable income limits and to pay the anticipated monthly debt service on the Mortgage Loan.
- (c) Must have a tri-merge “middle” credit score as reported by TransUnion, Experian and Equifax of 620 or higher. If there are less than three reported credit scores the lowest score will be used.
- (d) Must sign the Mortgage Loan Reservation Acknowledgment Form (HMFA 306).
- (e) Must be a first time homebuyer except in a Target Area.

2.202 Reporting of Loans in Process. After Seller has prescreened an applicant for program eligibility and has taken a Mortgage Loan application, an authorized person of Seller will register the loan via the Internet Loan Reservation (ILR) System.

- (a) In order to reserve funds, Seller will need to access the Internet Loan Reservation (ILR) System with the following information:
 - * name of each applicant
 - * property address
 - * zip code
 - * county
 - * social security number(s)
 - * sales price
 - * mortgage amount
 - * target or non-target loan
 - * new or existing property
 - * number of units
 - * family size
 - * annual income
 - * type of loan (i.e., FHA, VA or RHS)

- (b) A 6 digit loan number will be issued by the ILR system at the time of registration and must appear on the Transmittal Summary Form l008 and all subsequent correspondence regarding the loan.
- (c) Seller may cancel a loan within 10 business days of registration via the ILR system. After that, Seller must notify the Agency in writing of any cancellation within two (2) business days. A copy of adverse action or consumer disclosure letter sent to the applicant must accompany cancellation.

2.203 Timely Reporting of Loans In Process. In order that the Agency can monitor the timely distribution of funds, all loans in process must be registered via the ILR System either on the same or on the next business day following the date the Mortgage Loan application is taken. Under no circumstances should the lender take more than 48 hours to register a loan. The Mortgage Loan interest rate will be assigned at the rate in effect at the time of loan registration, regardless of when the application was taken.

2.204 Reservation Period. Upon Reservation, funds will be reserved for 90 days from the date of the loan reservation, EXCEPT that the reservation will be canceled if the loan package is not submitted by the Seller for Agency underwriting by the 45th day after the Reservation date. Loan packages must be complete and include the loan application, three (3) most recent years federal tax returns or IVES report (as permitted in Section 3.103), VOE, VOD, appraisal, credit analysis and such other documentation as are set forth in Section III. After the 90th day any loan not submitted for purchase will be automatically canceled. A loan may be extended for an additional 30 days immediately following the 45 day underwriting submittal period or the 30 days immediately following the purchase submittal. There will be a fee equal to 3/8 of 1% of the Mortgage Loan amount, to be paid by the Seller not the applicant, for each extension of the Mortgage Loan. Mortgage Loans that are canceled will not be extended, but may be resubmitted as new applications. If a canceled application is resubmitted within 60 days following cancellation, the origination fee from the HMFA to the Seller will be reduced by an amount equal to 3/8 of 1% of the Mortgage Loan amount. The Agency reserves the right, from time to time, to change the number of days outlined above and lenders will be notified accordingly. The Reservation Period for new construction will follow the same rules set forth in this Section, including cancellations, extension and fees, except that funds will be reserved for 180 days with an available 60 day extension period.

PART III MORTGAGE LOAN ORIGINATION

SECTION 3.1 BORROWER ELIGIBILITY REQUIREMENTS.

3.101 No Corporate Ownership. Mortgagor must be an individual.

3.102 First Time Homebuyer. Unless the Mortgage Loan is made in a Target Area, the Mortgagor shall not have had a present ownership interest in a principal residence at any time during the three years prior to which the mortgage is executed. For the Agency's program, the three years consist of tax calendar years (January 1, through December 31). The sale of previously owned property must have occurred prior to three tax calendar years before the Mortgage loan closing.

For purposes of this section, interests which constitute present ownership interests include the following: fee simple interest, a joint tenancy, a tenancy in common, or tenancy by the entirety; the interest of a tenant-shareholder in a cooperative; a life estate; a land contract; and an interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor. Interests which do not constitute present ownership interests include the following: a remainder interest; a lease with or without an option to purchase; a mere expectancy to inherit an interest in a principal residence; the interest that a purchaser of a residence acquires on the execution of a purchase contract; and an interest in other than a principal residence during the previous three (3) calendar tax years.

3.103 Tax Returns Required. To establish that the Mortgagor meets the requirements of 3.102, Seller shall examine true and executed (signed) copies of the Mortgagor's federal income tax returns for the previous three (3) years and determine whether the Mortgagor has taken a mortgage interest or a property tax deduction for his principal residence. If the Mortgagor cannot provide the documents at time of Mortgage Loan application, copies should be obtained from the Internal Revenue Service on IRS Form 4506, Request for Copy of Tax Return.

In cases where the Mortgagor filed Form 1040, Seller must obtain the Form 1040 plus all schedules. If the Mortgagor filed Form 1040A or Form 1040EZ, a verifying letter from the IRS will be required and full copies of their State Income Tax Returns will be required to determine if the Property Tax Deduction was taken. Where the Mortgagor was not required to file federal or state income tax returns, Seller should obtain a sworn statement from the Mortgagor to that effect which further attests that the Mortgagor had no interest in a principal residence during the past three years.

In lieu of supplying true and executed copies of the Form 1040 and attendant schedules, Seller may obtain and certify as a true copy the transcript for each of the prior three years applicable federal income tax returns as reported by the IRS' Income Verification Express Service (IVES). Seller must obtain the IVES report as, or from, an IRS approved IVES reporting agency. The IVES

report must show wages and other taxable income, adjusted gross income, filing status, deductions for property taxes or mortgage interest payments.

IVES may also be used to obtain Form 1040A or Form 1040EZ, however, for tax years when these forms were filed, full copies of the applicant's State Income Tax Returns for the past three tax calendar years must also be submitted.

3.104

Income Limits. An applicant shall be eligible for a Mortgage Loan if the applicant has an annual gross household income at the time of signing the Mortgage Loan application not in excess of the limit or limits established in the applicable Term Sheet established in accordance with the Code which shall govern in the event of a conflict in the maximum income limit between the Code and the Term Sheet. Income at the time of closing must not be over the maximum applicable income limits established in accordance with the Code, which will govern in the event there is an error in the Term Sheet. Total gross household income is for all mortgagor(s) and any other person who is expected to live in the residence being financed and to be secondarily liable on the mortgage. This would include a co-maker who will occupy the subject property.

(a) Calculating Annual Gross Borrower Income.

For the purpose of determining income eligibility, the Seller shall use the annualized value of the applicant's current rate of monthly income. Annualized gross income is determined by multiplying gross monthly income by 12. Gross monthly income is the sum of monthly gross pay; any additional income from overtime, part-time employment, bonuses, dividends, interest, royalties pensions, Veterans Administration compensation, net rental income and other income such as alimony, child support, public assistance, sick pay, social security benefits, unemployment compensation, income received from trusts, and income received from business activities or investments.

The income eligibility verification relied upon by the Seller cannot be more than 4 months old at the time of mortgage closing. If the mortgage closing does not occur within 4 months, current income verification will be required. If current household income exceeds the applicable income limits, the mortgage loan application will be rejected and any commitment issued by the Agency will be null and void.

For Mortgage Loans on Multiple-Unit Dwellings, anticipated monthly rental income shall be excluded from the maximum income calculation, but 75% of the monthly rental income anticipated after the loan closing may be considered when calculating debt ratios.

(b) Verification.

The Seller shall verify income through current pay stubs and/or written verification from all reported income sources. The applicant's Internal

Revenue Service tax return form 1040 from the previous year should also be used to verify income sources.

(c) Self-Employed.

Where an applicant is self-employed or is one of the principal owners of a business, the previous three years Federal Income Tax Returns shall be required as well as two years audited profit and loss statement.

- 3.105 Owner Occupancy. The Mortgagor must within sixty (60) days of Mortgage Loan closing occupy the mortgaged property as his/her principal residence. In the case of Multiple Unit Dwellings, only one unit of such must be occupied as the principal residence of the Mortgagor.
- 3.106 No Trade or Business. Mortgagor must not use or intend to use any portion of the mortgaged property in a trade or business, as a vacation home or investment, except for rental units in a Multiple Unit Dwelling.
- 3.107 Requirements for Co-Signer. A co-signer of the note, as permitted by Section 3.206, who will not have an interest in the property, is not required to meet the borrower eligibility requirements of Section 3.1.
- 3.108 Mortgagor's Affidavit and Property Seller's Affidavit Required. Every Mortgage Loan must be supported by a Mortgagor's Affidavit (HMFA 300) signed and attested by the applicant affirming, among other things, to the mortgagor's income and first-time buyer status and to the cost and intended use of the Eligible Property to be purchased. Every Mortgage Loan must also be supported by a Property Seller's Affidavit (HMFA 161) signed and attested by the seller of the Eligible Property affirming, among other things, the actual acquisition cost of the property that will be paid by the applicant. These affidavits are required to establish that Mortgage Loan is in compliance of the Code and are mandatory.
- 3.109 Other Real Estate Owned. The Mortgagor may not own or have an interest in other real estate at time of loan closing or during the immediately preceding three years.

Exceptions will be considered only under the following circumstances:

- (a) Real estate is a vacation home not used as a primary residence by the Mortgagor.
- (b) Real estate is vacant land.
- (c) Real estate is non-residential, commercial or industrial in character. When other real estate is owned, under exception (a) or (b) of the aforementioned acceptable situations, Seller will be required to obtain a certification from the Mortgagor indicating the type of property owned and the circumstances under which it is being held.

- 3.110 Seller's Review and Warranty. Seller must verify the information contained in the Affidavits and required by this Section 3.1 as part of the processing for Mortgage Loan approval.
- 3.111 One Mortgage Reservation Only. Applicants may not have more than one current reservation for an HMFA Mortgage loan.
- 3.112 Employee Mortgage Loan. Employees of Seller are eligible for Agency financing, however, they may have no part in the processing, underwriting, and/or closing of their own file.
- 3.113 Citizenship, Permanent and Non-Permanent Residents.

- (a) General Rule. Citizenship of the United States is not required for eligibility. HMFA will purchase loans made to 1) United States Citizens and also to 2) non-citizens who are Lawful Permanent Residents in the United States. HMFA may also purchase loans made to 3) non-citizens who are Lawful Non-Permanent Residents depending upon the circumstances. When a mortgage loan applicant indicates on the loan application that he or she holds something other than U. S. Citizenship, the lender must determine residency status from the documentation provided by the borrower.
- (b) Who is a Citizen? A U.S. Citizen can be native-born, foreign-born or a naturalized person. Most U.S. Citizens achieve that status by being born in the U.S. Certain individuals born outside the U.S. are citizens because their parent(s) or adoptive parent(s) are U.S. citizens. Other individuals apply to become citizens through the Naturalization process. Information on who is a U.S. citizen and how to become a U.S. citizen is contained in the Immigration and Nationality Act, 8 U.S.C. § 1101 et seq.
- (c) Lawful Permanent Residents ("Green Card" holders). A Green Card gives a person lawful permanent residency in the U.S. A Lawful Permanent Resident is a foreign national who has been granted the privilege of living and working in the United States.
- HMFA will purchase a loan made to a Lawful Permanent Resident under the same terms and conditions as U.S. citizens. The lender must document the file with evidence of permanent residency and indicate on the loan application that the borrower is a Lawful Permanent Resident. Evidence of permanent residency is issued by the Bureau of Citizenship and Immigration Services (BCIS) (formerly the Immigration and Naturalization Service) within the Department of Homeland Security.
- (d) Non-Permanent Residents. These individuals are citizens or subjects of other countries who have been permitted entry to the U.S. pursuant to a VISA. They are non-immigrants in that they do not have the stated goal of making the U.S. their permanent residence. They enter the U.S. for a temporary period of time and are restricted to the activity or reason for which their VISA was issued. Certain types of VISAS permit extended non-permanent residency.

HMFA will purchase loans made to a Non-Permanent Residents with long-term VISAs, such as H-1B, L-1, O-1, and TN VISAs, provided the property will become the borrower's principal residence, the borrower has a valid Social Security Number and the borrower is eligible to work in the U. S. as evidenced by an Employment Authorization Document (EAD) issued by BCIS. If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exists, the lender may assume continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal based upon information from the BCIS. Persons with short term VISAs such as tourists, visitors, seasonal workers and student non-permanent residents are not eligible.

- (e) Non-Citizens with no lawful residency. Non-U.S. Citizens who cannot demonstrate legal residency are not eligible for HMFA mortgages.

SECTION 3.2 CREDIT AND PROPERTY UNDERWRITING REQUIREMENTS.

3.201 Cash Downpayment. The maximum loan-to-value ratio on all Mortgage Loans shall not exceed one hundred percent (100%), or such greater percentage as may be permitted by the Agency and mortgage insurers.

- (a) The excess of the purchase price of the property over the original loan amount of the Mortgage Loan must be paid from Mortgagor's liquid assets or cash equity. Seller must determine that the Mortgagor has sufficient cash assets by utilizing the Verification of Deposit Form (FNMA 1006) or 3 months bank statements.

No secondary financing may be used for the downpayment or closing costs in the consummation of the loan, except with the approval of the Agency.

- (b) Sellers will be required to obtain written verification of all deposit monies being held for the property purchase.
- (c) Funds which the Mortgagor receives as a gift toward downpayment or closing costs must be supported by a statement from the donor confirming the gift and stating that repayment is not expected. A gift cannot be considered unless the donor is a close relative, a close friend with a motivating interest in the Mortgagor, the Mortgagor's employer, or a legally constituted non-profit entity or religious organization. The donor can have no connection with the property seller, or the Seller, or seek repayment or a fee or contribution from any party to the transaction or the financing of the transaction.
- (d) Closing costs may be paid by either the Mortgagor or the seller of the property.

- (e) Certain prepaid settlement costs must be paid by the purchaser of the property in order for the mortgage to be eligible for purchase. These costs include:
 - o interest charges covering any period after the settlement date;
 - o real estate taxes covering any period after the settlement date;
 - o Hazard insurance premiums; and
 - o the escrow accruals required for renewal of the mortgage insurance premium.
- (f) Seller's concessions or contributions of up to 3% of the lesser of the sales price or appraised value are permitted. Note that the amount of the seller's concession or contribution must not be offset by increasing the amount of secured mortgage financing.
- (g) The maximum loan-to-value ratios for FHA, VA or RHS loans must be in compliance with their guidelines.

3.202 Secondary Financing. Secondary financing is not permitted. However, in cases where the Mortgagor has fulfilled the requirements specified in 3.201, the Mortgagor may request approval for financing from another government or non-profit source such as a federal, state, county or local government deferred downpayment assistance loans. Unless specifically agreed to otherwise by the Agency, the secondary financing must be subordinated to the Agency's secured first and second mortgages and the terms must be specified in the loan application and be approved in advance of closing by the Agency.

3.203 Mortgage Insurance.

- (a) Mortgage Insurance issued by an MI is required on all Home Buyers Program (HBP) loans where the loan-to-value ratio is greater than 80%. The coverage required is indicated on the applicable Term Sheet. Premiums may be financed provided the final loan-to-value does not exceed 100% or greater as may be permitted by the Agency and the mortgage insurer. The MI coverage is based on the total LTV ratio, not the borrower's downpayment. No insurance coverage may be canceled without prior written consent from the Agency, or as required by law. FHA 203(b) insurance is acceptable in lieu of private mortgage insurance. The terms and conditions of the insurance will be in accordance with the 203(b) program guidelines. ONLY participating lenders with Direct Endorsement Approval may originate Agency loans with FHA insurance. MI companies must be on the Agency's approved MI list.
- (b) MI Declination. Sellers must notify the Agency of any refusal by an MI to provide the required coverage for any reason other than unsatisfactory credit or property considerations.

- (c) Full Force and Effect. As of the closing date, such insurance must be in full force and effect, or fully committed if the practice of the MI company is to issue policy coverage after closing. If the policy is not in full force and effect or for any reason the MI company declines to insure the loan after purchase, including but not limited to first or early payment delinquency or default, the Seller will be obligated to secure the required MI insurance or repurchase the loan. The benefits of such mortgage insurance must run to the Agency and nothing must have been done or omitted to impair the rights or remedies of the Agency. Loans with MI commitments that
- (d) No Commissions. In connection with the placement of such mortgage insurance and to Seller's knowledge, the MI shall not cause or permit any consideration or thing of value (other than the protection provided by its mortgage insurance), including but not limited to, any commission, fee or other compensation to be paid to or received by: (i) any mortgage lender, the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation; (ii) any officer, director or employee of such lender or any members of the immediate family of such officer, director or employee; (iii) any insurance agency, corporation (other than the insurer), partnership, trust or other business entity (including any service corporation, whether organized for profit or otherwise) in which an insured lender or any officer, director, employee or any members of the immediate family of such officer, director or employee has any direct or indirect ownership or financial interest; or (iv) any designee, trustee, nominee or other agent or representative of any of the foregoing. This requirement applies to any commission, fee or other compensation paid or received regardless of whether such commission, fee or other compensation was paid or received before or after the mortgage insurance placed in connection therewith was written.
- (e) FHA Mortgage Insurance Cost. The maximum insurable mortgage is based on the lower of the statutory dollar limit or the appropriate loan to value ratio or the applicable purchase price under the bond program whichever is less.
- (f) VA Mortgage Guaranty. The maximum mortgage guaranty permitted by VA or the applicable purchase price under the bond program whichever is less.
- (g) RHS Mortgage Loan Guarantee. The maximum mortgage guarantee permitted by RHS or the applicable purchase price under the bond program whichever is less.
- (h) Mortgage Pool Insurance. The Agency may contract with a mortgage insurance provider or providers for mortgage pool insurance coverage for loans that are not otherwise insured by FHA, VA or RHS insurance or guarantees. In addition to assuring that primary mortgage insurance requirements are met, when pool insurance is required, it is the Seller's

responsibility to secure a pool insurance certificate of coverage for each Mortgage Loan that is not otherwise insured by FHA, VA or RHS.

3.204

Credit Underwriting Guidelines. Evaluation by Seller of each Mortgagor's creditworthiness must be done on a case-by-case basis. All standards for determining effective income must be applied to each Mortgagor in the same manner. The following are guidelines to indicate proper considerations in ascertaining that the Mortgagor's creditworthiness is sufficient. These guidelines are not intended as requirements or rules that must apply in all cases; however, the Agency considers them to be sound general principles in underwriting credit.

- (a) Monthly Housing Expense-to-Income Ratio. The Agency will normally require that monthly housing expense (first mortgage payments plus escrows) not exceed 28% for a conventional loan, 29% for an RHS guaranteed loan, 31% for a FHA insured loan, or 33% for Community Home Buyer Program of Mortgagor's "stable monthly income," as defined in clause (e) below.

If Mortgagor is purchasing a condominium or PUD unit, the monthly condominium or PUD fee (homeowners' association dues) for common elements/property charges and maintenance, excluding unit utility charges, must be included in the monthly housing expense when calculating the above ratio.

- (b) Monthly Debt Payment-to-Income Ratio. The Agency will normally require that the total amount of monthly housing expense (referred to in clause (a) above), plus all other monthly payments on all installment debts having remaining terms of more than ten (10) months do not exceed 36% for a conventional loan, 41% for an RHS guaranteed loan, 43% for an FHA insured loan, or 38% for Community Home Buyer Program of Mortgagor's "stable monthly income." Alimony, child support and pension loans are considered long term monthly obligations, unless such obligations terminate in less than ten (10) months.
- (c) Monthly Housing Expense-to-Income and Debt-to-Income Ratio for VA Loans. The maximum Debt-to-Income Ratio is 41% provided there is sufficient residual income to satisfy the VA regulations.
- (d) Compensating Factors. There are many underwriting considerations that justify the use of higher debt-to-income ratios. When such factors exist, we do not object to the use of higher underwriting ratios for any mortgage. Generally, the lender should be more flexible in using a higher ratio for the monthly housing expense to income comparison than it uses for the total obligations-to-income comparison. A higher monthly housing expense-to income ratio or a higher total obligations-to-income ratio (or both) may be acceptable for mortgages that have loan-to-value ratios of 90% or less, if the borrowers

- are making a large downpayment toward the purchase of the property, or have a strong equity position in a property that is being refinanced;
- have demonstrated an ability to devote a greater portion of income to basic needs like housing expenses;
- have demonstrated an ability to accumulate savings and to maintain a good credit history or a debt-free position;
- have potential for increased earnings and advancement because of their education or job training, even though they have just entered the job market;
- have net worth substantial enough to evidence their ability to repay the mortgage;

In order for the use of higher qualifying ratios to be approved for mortgages that have loan-to-value ratios above 90%, not only must the borrowers fall into one of the above categories, but also one of the following conditions must exist:

- The borrowers have financial reserves that can be used to carry the mortgage debt. Part of the savings must be in the form of liquid assets that equal at least two months of PITI payments;
- The borrowers have demonstrated an ability to devote a greater portion of their income to housing expenses (but the housing expense for the subject mortgage should not exceed the borrowers' previous housing expenses), excellent payment histories on any prior mortgage obligations, and acceptable credit histories;

Lenders must support and document all decisions regarding the underwriting ratios - whether they rely on the above compensating factors or others.

- (e) Stable Monthly Income And Other Income Considerations. Stable monthly income is Mortgagor's gross monthly income from primary employment base earnings plus recognizable secondary income. Secondary income of any Mortgagor, such as bonuses, commissions, overtime, or part-time employment, should only be recognized in "stable monthly income" if such items of secondary income are typical for the occupation, substantiated by Mortgagor's previous two years' earnings and continuation is probable based on foreseeable economic circumstances.

On Multiple-Unit Dwellings, the Agency recognizes that rental income will be generated from the tenant occupied units. Future rental income is not considered part of gross annualized household income for purposes of determining income eligibility under the Code. However, 75% of future net rental income may be included in income for

purposes of determining household debt ratios. The Agency defines net rental income as the property's gross monthly rental, less allowance for the owner occupant's unit, vacancy factor and operating expenses. Note that affordable housing units sold pursuant to the State's Uniform Housing Affordability Controls or other programs may have different rules for application of rent. On all Multiple-Unit dwellings the Agency requires that Seller complete an Operating Income Statement (FNMA 216) on the property. Seller will be required to send this form to the Agency with the Prior Approval documentary package. Rental income should not exceed that which is reasonable and customary for the area in which the property is located as defined by the appraisal report.

All Mortgage Loan applicants must disclose income from alimony, child support or maintenance payments and Seller agrees to consider such payments as income to the extent that they are likely to be consistently made. Factors which Seller may consider in determining the likelihood of consistent payments include, but are not limited to, whether the payments are received pursuant to a written agreement or court decree; the length of time the payments have been received; the regularity of receipt; the availability of procedures to compel payment; whether full or partial payments have been made; the age of any child; and the creditworthiness of the payor, including the credit history of the payor where available to Seller under the Fair Credit Reporting Act or other applicable laws. Seller agrees to submit to the Agency evidence adequate to support its determination.

Items such as education, training, technical skills, occupation and past employment history should be taken into account on a case-by-case basis in determining "stable monthly income". Income necessary to qualify a Mortgagor can be verified by a Verification of Employment Form (FNMA 1005) or current pay stubs. If there has been a change in employment within the past two years, an additional verification must be obtained confirming the Mortgagor's previous employment. In cases where Mortgagor is self-employed, the minimum acceptable documentation to verify income would be profit and loss statements from the last year end prior to application for the Mortgage Loan and tax returns from the previous three years.

- (f) Mortgagor's Credit Reputation. In addition to the above guidelines, Seller must determine that Mortgagor's housing payments plus other obligations do not constitute an undue strain on Mortgagor's ability to make all such payments promptly and that a credit reputation is evidenced which would be commonly acceptable to private institutional mortgage investors. The following additional guidelines should be considered:
 1. Slow Payments Shown On Credit Report. If Mortgagor has a recent history of slow payments on a previous mortgage(s), the Agency will require a detailed, written explanation. Slow payment of other debts constituting a pattern of late payments, or a payment

pattern which appears to indicate slow payments of debts related to basic needs while prompt payments were made on debts related to less important needs of the Mortgagor and Mortgagor's family, must also be satisfactorily explained.

2. Bankruptcy. The discharge of bankruptcy must have occurred prior to two (2) years before applying for HMFA financing. The Mortgagor must have established a satisfactory credit record in this time period. This applies to Chapter 7 and 13 discharges.
 3. Default on Loans. Any loan which is in default or with a collection agency must be paid in full. Payment plans on defaulted loans are unacceptable, unless the borrower has made 12 monthly payments on the payment plan in a timely fashion.
 4. Judgments against Borrowers or affecting the Property. Judgments must be paid in full at or prior to the Mortgage Loan closing. Judgments, delinquent accounts or other indebtedness cannot be paid with Agency loan funds.
 5. Borrower may be considered for a mortgage if previously a defendant in a mortgage foreclosure if the proceedings were completed at least five (5) years prior to loan application. The borrower must have established good credit.
 6. Job Tenure; Change of Residence. Three or more employment changes by Mortgagor within the previous five years, or four or more changes of residence within the previous six years must be satisfactorily explained.
- (g) Home Buyer Education. These sessions are to be in compliance with the requirements of the mortgage insurer. At the time of loan submission for underwriting, the Certificate of Completion of the course should be in the loan file. Agency funded or approved counseling is mandatory for all 100% Financing Program borrowers.

3.205

Credit Report. Each Mortgage Loan must have a written report meeting the following requirements:

- (a) Borrower must have a minimum tri-merge "middle" credit score of 620 or higher as reported by TransUnion, Experian and Equifax. If there are less than three reported credit scores the lowest score will be used. There is no minimum credit score requirement for loans covered by Section 6.1 (100% Financing Program). Applicants with no credit scores, but with documented income, rent, cash savings, bank statements, utility bills, written credit references and other forms of non-traditional credit, or some combination thereof, may be acceptable to the Agency on a case by case basis.
- (b) The Seller is required to obtain a written credit report for each borrower on the loan application who has an individual credit record. The credit

report must be based on data provided by the following national credit repositories-Equifax, Experian, or TransUnion. The credit report may be prepared by an independent consumer credit reporting agency or one of the national credit repositories. Acceptable formats for these traditional credit reports include an “in-file” credit report, an automated “merged” credit report, or a residential mortgage credit report. Regardless of the credit report format all three credit repository scores must be queried.

A traditional credit report must include both credit and public record information for each locality in which the borrower has resided during the most recent two-year period. The credit report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act.

Although the Fair Credit Reporting Act currently specifies that credit information is not considered obsolete until after seven years and bankruptcy information, after 10 years, we require only a seven-year history to be reviewed for all credit and public record information. Each credit report must include available public record information, identify the sources of the public records information, and disclose whether any judgments, foreclosures, tax liens, or bankruptcies were discovered (with these adverse items reported in accordance with the Fair Credit Reporting Act). Public records information must be obtained from two sources, which may include any combination of the following: national repositories of accumulated credit records, direct searches of court records by employees of the lender or the consumer reporting agency, or record searches made by other public records search firms.

A Seller may accept an “in-file” credit report from three different credit repositories that are able to report both credit and public record information for each locality in which the applicant lived during the last two-year period. A lender may accept “in-file” reports from two different repositories if that is the extent of the data available for the borrower.

“In-file” credit reports must identify the repository’s source for each specific tradeline. When an “in-file” credit report does not include a reference for each significant debt the applicant reported on the loan application, the Seller must obtain a separate written verification for each unreported (or unrated) debt.

A Seller may accept an automated “merged” credit report that electronically combines the information from the “in-file” credit reports from three different repositories into a single report-as long as the “merged” report is provided by a reporting agency that is not affiliated with the Seller in any way. A Seller may accept a “merged” report that combines the “in-file” credit reports from two different repositories if that is the extent of the data available for the borrower.

An automated “merged” credit report must be prepared in accordance with the following:

- The report must include all of the information from the three (or two, if applicable) “in-file” credit reports;
- The report must identify the repositories that were used for the “in-file” credit reports; and
- The report does not have to repeat duplicate information that is in the “in-file” credit reports. However, if the duplicate information is not exactly the same on each report, the automated “merged” report must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

When preparing a residential mortgage credit report, the reporting agency must contact at least two national repositories of accumulated credit records for each locality in which the borrower has lived during the most recent two-year period. All information in a residential credit report must be obtained from, or verified by, sources other than the applicant. When co-applicants have individually obtained credit, separate repository inquiries are necessary, although the results of both reports may be combined in one residential mortgage credit report-as long as the report clearly indicates that this has been done.

The reporting agency must verify-either in writing or by telephone-the borrower’s current employment and his or her income (if it can be obtained). If the applicant has changed jobs in the past two years, the credit report also must mention the applicant’s previous employment and income. The reporting agency must include in the credit report a positive statement that the employment was verified, the date of verification, and the name of the individual who confirmed the employment. In addition, if this information was not obtained by an employer interview, the reporting agency must indicate why that was not done.

The credit report must include the name of the party who ordered the credit report. If another party paid for the report, that party’s name also must be shown, unless the lender ordered the report and the billed party has a documented agent of corporate relationship with the Seller. The original credit report must be delivered to the office of the party who requested it, using any means that are acceptable under the Fair Credit Reporting Act or similar regulations-such as sending it through the U.S. Postal Service. By messenger, over a fax machine, or through other automated means. The credit report also must include a certification that it meets the standards for a residential mortgage credit report.

When the reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in public records, or obtains other information that indicates the possible existence of undisclosed credit records, the reporting agency must interview the applicant(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist. Credit documents must be no more than 120 days old on the date the note is signed. When the age of the documents is greater than 120 days, lender will be required to update the credit file.

3.206 Co-Signer. The use of a co-signer on the note is permitted, for credit enhancement purposes only, in situations of short term employment, past delinquent credit experience and insufficient income provided that the primary Mortgagor(s) have reasonable prospect of making the proposed payments on their own accord. The co-signer's income may not be relied upon to meet the guidelines for housing expense to income or debt expense to income ratios or to determine whether the household falls within income limits.

3.207 Buy-downs Permitted. Buy-downs are cash payments equal to the amount needed to off-set the Mortgagor's interest payment on a Mortgage Loan for a period of up to three years. Buy-downs are not discount points and do not alter the actual note rate which shall remain constant over the life of the Mortgage Loan. Buy-downs typically are funded by sellers, but may be funded by the Mortgagor. Temporary interest rate buy-downs will be permitted with the Agency's prior approval subject to the following requirements:

- (a) The term of the buy-down period must not be less than one year or greater than three years.
- (b) The interest rate buy-down is not greater than three (3) percent. However, in any one (1) year the buy-down cannot exceed one (1) percent.
- (c) There are no references made to the buy-down plan in the note and mortgage instruments.
- (d) The coupon rate and monthly payments provided for in the note and mortgage instruments are shown exclusive of the buy-down subsidy.

Seller's should apply underwriting guidelines on the reduced monthly payment indicated for year two of the buy-down agreement.

An applicant who has a mortgage that is subject to an interest rate buy-down plan should have a high likelihood of remaining in his or her home without experiencing a default; therefore, lenders should not use buy-down plans to qualify an applicant who would not otherwise be able to qualify for the mortgage. The lender's underwriter should carefully evaluate the borrower's ability to manage the payment increases that will occur under the terms of the buy-down agreement.

For all mortgages that are subject to interest rate buy-down plans, the lender should use one or more of the following credit related factors to establish whether the borrower is likely to be able to handle the payment increases:

- o The Seller should review the applicant's employment history and determine (based on its knowledge of the occupational opportunities in the local market) whether the borrower has a likely potential to experience income increases commensurate with the scheduled payment increase(s).
- o The Seller should consider the applicant's ability to manage and adjust his or her financial obligations in a way that will allow allocation of a greater portion of his or her income toward the mortgage obligation. This flexibility can be demonstrated in several ways - (1) applicants who have lower qualifying ratios should have more funds available to apply toward the scheduled payment increases, (2) applicants who have either few long-term debts or long-term debts that do not extend beyond one or two years should have more funds to devote toward housing expense as those debts are paid off, and (3) applicants who have an acceptable credit history and a demonstrated ability to accumulate savings should be able to have funds available as the payment changes occur.
- o The Seller should determine the amount of liquid assets that the borrower will have after closing to see if he or she will be able to use them to absorb the payment increases that will occur after the buydown period. This, in itself, should not be a limiting factor. For example, a borrower who does not have significant assets could still be considered favorably if he or she is making a large downpayment or meets one of the two factors discussed above.

3.208

Appraisals

The property must have been appraised within the 3 months that precede the date of the note and mortgage. When the appraisal will be more than three (3) months old on the date of the note and mortgage - regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

- (a) Appraisal Forms. Seller's must supply an appraisal on one of the following applicable Fannie Mae approved Appraisal Forms, as updated from time to time:

Single Family	FNMA	Form 1004
Two-to-Four Family	FNMA	Form 1025
Condominiums	FNMA	Form 1073

Revised Statement of Limiting Conditions and Appraiser's Certification (Form 1004B) must be used in connection with all appraisals prepared for Agency loans.

Appraisals completed for property to be insured through FHA's 203(b) program must be in conformance with HUD's Valuation Guidelines.

- (b) Well, Septic, & Wood Infestation Certification. The Agency requires satisfactory Well and/or Septic Certifications on all properties (other than those newly constructed) where the appraiser has indicated a well and/or septic system is present. A satisfactory termite certification prepared by a competent inspector indicating no evidence of ongoing infestation on unrepaired damage will be required on all properties other than those newly constructed and upper units mid-high rise condominiums using NPMA-33, Wood Destroying Insect Infestation Inspection Report (Section 3.410).
- (c) Satisfactory Completion Certificate. With respect to appraisals made subject to repairs, alterations or conditions, or subject to completion per plans and specifications, Seller must submit to the Agency, on the delivery date, a statement of satisfactory completion. This report shall be made after completion of repairs, improvements, alterations, conditions or construction, and must clearly state substantial compliance with all conditions or requirements as set forth in the original appraisal report of the mortgaged premises. The original appraiser must prepare this statement of satisfactory completion.

The Agency recognizes the fact that due to weather conditions, minor items not affecting livability, whether on or off site may be incomplete at the time of loan closing. This is acceptable to the Agency providing that the following requirements are met: a) a certificate of occupancy or temporary certificate of occupancy has been issued, or if the municipality does not issue certificates of occupancy, the Seller or an appraiser must certify that the property is substantially complete, that there are no health, safety, sanitation or other conditions that would make the property uninhabitable, and provide the Agency for its approval with a list of any and all items that need to be installed, repaired or replaced; b) the Seller assumes the responsibility for an escrow which is 1-1/2 times the estimated cost of the completion of the unfinished items, this amount is not to exceed \$7,500, unless the Seller first receives written approval from the Agency, Seller forwards a copy of the escrow agreement with the mortgage loan delivery package, and the Seller forwards to the Agency an updated statement of satisfactory completion when items are complete. The statement of satisfactory completion must be prepared by the original appraiser.

- (d) Appraisers. The Agency does not approve specific appraisers; however an appraiser must be experienced in the appraisal of 1-4 family properties and must be actively engaged in such appraisal work. All appraisers performing appraisals for Agency loans will be required to

be licensed by the State of New Jersey in accordance with P.L. 1991 c.68 and regulations promulgated thereunder.

1. Discontinuance of Appraiser by the Agency. The Agency may, at any time, notify Seller that the Agency will no longer accept appraisals made by a given appraiser, and Seller shall not thereafter use such appraiser, with respect to Mortgage Loans purchased by the Agency.
3. Representations to Third Parties by Appraiser. An appraiser must not make any representations to third parties that he or she has been, in any way, qualified by the Agency, but may represent (where it is the case) that he or she has made appraisals for the Seller on Mortgage Loans accepted for purchase by the Agency and, if applicable, may represent that the he or she is on the approved appraiser list maintained by the Agency for its appraisal assignments.

SECTION 3.3 MORTGAGE LOAN ELIGIBILITY.

Each Mortgage Loan delivered under the Mortgage Purchase Agreement must comply with the following requirements:

- 3.301 No Refinancing. No Mortgage Loan will be purchased by the Agency which was made for the purpose of refinancing an existing loan other than construction period loans, bridge loans or similar temporary initial financing (having a term of 24 months or less), or qualified rehabilitation loans.
- 3.302 Interest Rate. Each Mortgage Loan originated under Mortgage Program shall bear interest at the rate specified in the applicable Term Sheet.
- 3.303 Discount Fees. When permitted by the Agency, with respect to each Mortgage Loan originated, the total discount fees shall not exceed the amount specified in the applicable Term Sheet. Either the Mortgagor or the property seller may pay the fees. The Seller should adjust the Annual Percentage Rate accordingly. Note: Except as specifically authorized in the appropriate Term Sheet, the Agency does not permit Sellers to receive any compensation in the form of discount points or points charged to the Mortgagor or any other party. When discount points are required or permitted by the Agency, those points will be paid directly to the Agency.
- 3.304 Term. The original term of a Mortgage Loan must not exceed 30 years, unless the Agency has authorized a program for longer term mortgages as set forth in the appropriate Term Sheet.
- 3.305 Amortization. Each Mortgage Loan must provide, through regular monthly payments on the first day of each month, for full amortization by maturity. Amortization must commence not later than sixty-two (62) days after final disbursement by Seller of the Mortgage Loan proceeds.

- 3.306 Origination. Each Mortgage Loan must have been closed in Seller's name as lender. Seller is fully liable for all warranties and representations made to the Agency regardless of who does the origination of the Mortgage Loan. Furthermore, Seller is liable and responsible for compliance with RESPA and all consumer protection laws and regulations in effect at the time of the closing of the Mortgage Loan.
- 3.307 Assumption. The obligation to make payments due on any Mortgage Loan shall not be assumable unless written approval is received from the Agency. Each Mortgage shall contain a provision giving the Agency the right to accelerate the maturity of the Mortgage Loan upon transfer of ownership of the mortgaged property. Mortgage Loans may be assumed only if the assuming Mortgagor complies with the residence requirement, first time homebuyer requirement, income requirements and purchase price limitations. On Mortgage loans originally closed on or after January 1, 1991 and assumed prior to the end of nine years (9) from the date of closing the Recapture provision shall apply to both the original Mortgagor and the assuming Mortgagor.
- 3.308 Recapture. Section 143(m) of the Code requires a payment to the United States from certain Mortgagors with respect to Mortgage loans closed after December 31, 1990 upon sale of their homes financed by a Mortgage Loan, without regard to the date on which the applicable bonds were issued. In general, the Recapture provision establishes that under certain circumstances a portion of the amount determined to be the subsidy may be required to be recaptured during the year in which there is a disposition of the house. The recapture amount increases over the period of ownership, with full recapture occurring if the house is sold at the end of the fifth year. The recapture amount declines ratably to zero with respect to sales occurring in years six through nine. An exception excludes from recapture part or all of the subsidy in the case of assisted individuals whose incomes are less than prescribed amounts at the time of the disposition. For a more detailed explanation of Recapture see the Agency's website (www.nj-hmfa.com).
- 3.309 Mortgage Valid First Lien. The mortgage securing each Mortgage Loan must constitute a valid first mortgage lien. The property must be free and clear of all encumbrances and liens prior to the lien of the mortgage and no rights may be outstanding that could give rise to such liens, subject only to liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party walls, rights-of-way or other easements, or encroachments, provided that none of the foregoing materially affect the security for the Mortgage Loan. The note or bond evidencing the Mortgage Loan must be a legal, valid and binding obligation of the maker thereof, enforceable in accordance with its terms, free from any right of set-off, counterclaim or other claim or defense, and no part of the property may have been released from the mortgage. The terms of the Mortgage Loan must not be modified, amended, waived or changed, except as set forth in a recorded mortgage modification approved by the Agency. The Seller shall require that appropriate Notices of Settlement be recorded prior to settlement and that the Mortgage Loan documents be timely delivered for recording.

3.310 Leasehold Financing. The Agency will consider financing Mortgage Loans on leasehold estates on a case by case basis subject to determine whether the security is sufficient to meet the Agency's obligations to its bondholders. At a minimum, the remaining term of the lease must be at least five years longer than the term of the Mortgage Loan and the cost of the leasehold must be nominal. A copy of the land lease must be submitted to the Agency for consideration.

Considerations the Agency will take in order to make a determination are:

- (a) the use of a leasehold must be common to the area;
- (b) marketability must not be effected adversely;
- (c) the land lease must be recorded and subordinated to the Agency's first mortgage lien;
- (d) assignment of the leasehold must be permitted without the permission of the lessor;
- (e) the Agency must be allowed the right to acquire in its own name or the name of its nominee the rights of the lessee upon foreclosure or assignment in lieu of foreclosure.
- (f) the improvement must be real property with a deed and mortgage that are recordable in the county deed and mortgage registers.

3.311 Principal Amount Advanced; No Mandatory Future Advances; Outstanding Balance. The full principal amount of each Mortgage Loan must have been advanced to Mortgagor in accordance with the direction of the Mortgagor or placed in a completion escrow account. At the time of delivery of a Mortgage Loan to the Agency, the Seller shall forward a copy of the escrow agreement and an updated satisfactory completion certificate when the items are complete (see Seller's Guide, Section 3.208 for certification requirements). Mortgagor must not have an option under the Mortgage Loan to borrow from Seller or any other person additional funds secured by the mortgage without the consent of the Agency. The outstanding principal balance of the Mortgage Loan must be as represented by Seller to the Agency and must be fully secured by the mortgage.

3.312 Late Charge. On Mortgage Loans purchased by the Agency, Seller shall only collect late charges on monthly installments not received within fifteen (15) days and shall not collect any late charges in excess of four percent (4%) of the late payment, as covenanted in the Note and Mortgage forms.

3.313 Prepayment Charges. There shall be no prepayment charges on any Mortgage Loan.

- 3.314 Mortgage Loan is Not In Default and is Insurable. For each Mortgage Loan as of the purchase date, principal and interest payments must not be more than 15 days due and unpaid under the terms of the Mortgage Loan. All costs, fees and expenses incurred in making, closing, and recording the Mortgage Loan must have been paid; and there must not have been outstanding any advance of funds by Seller or by another at the request of Seller to or on behalf of Mortgagor to be used by Mortgagor for the payment of any monthly installment of principal or interest under the terms of the Mortgage Loan. Each Mortgage Loan sold to the Agency must be accompanied by a complete payment history and must be insured in the amount of the Mortgage Loan by an Agency approved insurer. Mortgage Loans, with MI commitments notwithstanding, that are uninsurable for any reason including early payment default will be required to be repurchased by the Seller, if the Seller cannot secure MI policy coverage or guaranty.
- 3.315 Escrow Requirements. Each Mortgage Loan shall provide for the monthly collection of escrows to the extent permitted by the Real Estate Settlement Procedures Act, as amended, along with the monthly installment of interest and principal. The escrow requirements must be the equivalent of one-twelfth of the estimated annual taxes, assessments, applicable insurance premiums on the mortgaged property to be paid monthly in advance to the holder of the Mortgage Loan. The escrow shall be held in trust for the benefit of the Agency and Mortgagors in an account in a bank or trust company, savings bank, national banking institution (which may be Seller) insured to the full extent legally possible by the Federal Deposit Insurance Corporation. The Agency requires a two month cushion calculated using the disbursement date of the escrow item. Shortly after closing and before the first payment on the Mortgage Loan is due the Seller must send the borrower a letter stressing the importance of making payments on time and of immediately communicating with the servicer should a problem arise. This letter will provide the borrower with a breakdown of the principal, interest, taxes and insurance(s) and will state when the first full payment is due. A copy of this letter should be included in the borrower's mortgage file.
- 3.316 Closing Cost Limits. Costs, fees and charges, of whatever kind or nature which were collected from the Mortgagor and from the seller of the residential property cannot exceed \$100 plus the aggregate of (1) the actual amounts expended for continuation of abstract, title insurance, Realty Transfer Tax and attorney fees, (2) updates to credit reports, appraisal, and survey, (3) filing and recording costs, the actual amounts paid or escrowed for taxes and insurance and homeowner association fees, and other costs (excluding the tax service fee on government loans) that are paid by the Mortgagor or the seller which appear on the GFE/RESPA and are primarily for the benefit of the Mortgagor.
- 3.317 Title Insurance Requirements.
- (a) Each Mortgage Loan must be covered by a title insurance policy, the benefits of which run to the Agency, on the current standard ALTA mortgage insurance form issued by a title insurer, licensed to do business in the state and qualified to provide title insurance on Mortgage Loans purchased by FHLMC and FNMA in an amount equal

to the original principal balance of the Mortgage Loan. Schedule B-I of the title insurance policy must not be subject to any exceptions other than liens of taxes or assessments which are not delinquent, building restrictions or other restrictive covenants or conditions, leases or tenancies whereby rents or profits are reserved to the owner, joint driveways, sewer rights, party walls, rights-of-way or other easements, or encroachments, provided that none of the foregoing materially affect the security for the Mortgage Loan, and do not exceed the FHA Title Waiver exceptions. Schedule B-II is required on all Agency Mortgage Loans, and must not reveal any form of secondary financing (unless approved by the Agency) utilized to consummate the purchase. Copies of the documents relating to exceptions must be included.

- (b) With regard to Mortgage Loans for condominiums, the policy must include ALTA Endorsement 4-(condominium) or the language of such must be incorporated in the body of the policy.
- (c) With regard to Mortgage Loans for PUDs, the policy must include ALTA 5 Endorsement (Planned Unit Dev.) or the language of such be incorporated into the body of the policy.
- (d) ALTA Endorsement 8.1 (Environmental Lien Protection) must be included in all title policies.

3.318 Survey Requirements. With respect to each Mortgage Loan, Seller must obtain a survey dated or re-dated within six months of the making of the Mortgage Loan certified by a licensed land surveyor or licensed civil engineer showing:(a) the exact location and dimensions of the property including the improvements located thereon, (b) the exact location of all lot and street lines, all means of access to such property, (c) the names of all avenues, streets and alleys abutting such property, (d) any encroachment on such property or any encroachment by the improvements on adjoining property, or any other defect, and (e) survey certified to borrowers, lender and title company. Survey affidavit of no change, approved by the title company will be acceptable on surveys up to 2 years old. A survey certificate is acceptable for a condominium property.

3.319 Execution and Recordation of Assignment. An assignment of each Mortgage Loan must be executed and recorded on a Uniform Assignment of Mortgage Instrument. Assignment should be recorded simultaneously with mortgage. The original Assignment to HMFA must be delivered to the Agency within 120 days from the Mortgage Loan closing date.

3.320 Hazard Insurance Requirements. The property securing each Mortgage Loan must be covered by hazard insurance meeting the following requirements.

- (a) Scope and Amount of Coverage Required for Mortgage Loans. Insurance coverage in the kinds and amounts prescribed in this section is required on property covered by a Mortgage Loan.

- (b) Minimum Financial Rating of Carrier; No Assessments; Other Requirements. Each hazard insurance policy must be written by a hazard insurance carrier which falls into a financial category as designated in Best's Key Rating Guide of B+ or better, class IV or better or Demotech, Inc. financial Rating of A (exceptional.) (The Agency will normally make an exception upon specific request where the insured is an assigned risk.) Each carrier must be specifically licensed or authorized by law to transact business in the State. Coverage required is as follows:
1. Fire and Extended Coverage Insurance shall be required in an amount at least equal to that customary in the geographical area in which the property is located. The amount of coverage shall be sufficient, except for deductibles as permitted below, so that in the event of any damage or loss of the property, coverage by the insurance shall provide the greater of: (i) compensation equal to the full amount of damage or loss; or (ii) compensation to the mortgagee under the Mortgage Loan equal to the full amount of the unpaid balance of the Mortgage Loan.
 2. Such insurance must be in effect on the delivery date of the Mortgage Loan, and the expiration date of each policy must be more than six months after the delivery date. The premium on each policy shall have been paid in full by the Mortgagor and no "courtesy receipts" or other secondary financing of such premium shall be permitted. Should this coverage be cancelled, or should the property be deemed uninsurable, due to insurance underwriting, property conditions, or governmental or legal compliance issues that were reasonably foreseeable to the Seller, the Agency reserves the right to require that the Seller repurchase the loan.
 3. Where Seller is aware that the property is exposed to any appreciable hazard against which Fire and Extended Coverage Insurance does not afford protection, Seller shall advise the Agency of the nature of such hazard and the additional insurance coverage, if any, which Seller has obtained against such hazard. If adequate insurance has not been obtained against such hazard, the Agency may require such coverage prior to accepting the Mortgage Loan for purchase.
 4. No Seller shall, in connection with any application for a loan secured by a mortgage on real property located in New Jersey, require any mortgagor to obtain by purchase or otherwise a fire insurance policy in excess of the replacement value of the covered premises as permitted under N.J.S.A. 17:36-5-19 as a condition for granting such mortgage loan.
 5. Unless a higher maximum deductible amount is required by state law, the maximum allowable deductible for a first mortgage is the higher of \$1,000 or one percent of the face

amount of the policy. The deductible clause may apply to either fire, extended coverage, or both.

6. Each Mortgage Loan shall provide that in the event of any loss settlement on a hazard insurance policy the mortgagee shall have the option of applying the loss settlement proceeds against the principal amount of the Mortgage Loan.
 7. With regard to Mortgage Loans on Condominiums, see additional requirements under Section 3.406.
- (c) Unacceptable Policies. Policies are unacceptable where: (1) under the terms of the carrier's charter, by-laws or policy, contributions or assessments may be made against the Agency or the Agency's designee; or (2) contributions or assessments may be made against the owner of the property which could become a lien on the property superior to the lien of the mortgage; or (3) by the terms of the carrier's charter, by-laws or policy, loss payments are contingent upon action by the carrier's Board of Directors, policy holders, or members; or (4) the policy includes any limiting clauses (other than insurance conditions) which could prevent the Agency or the owner of the property from collecting insurance proceeds.
- (d) Mortgagee Clause; Endorsement. All policies of hazard insurance must contain or have the mortgagee clause currently required in the Agency's purchase approval naming the Agency as an insured. The policy must provide that the insurance carrier shall notify Servicer at least ten days in advance of the effective date of any cancellation of the policy. It is Servicer's responsibility to cause each insurance policy to be properly endorsed and to give any necessary notices of transfer in order to fully protect, under the terms of the policy and applicable law, the Agency's interest as first mortgagee. However, Seller must cause all documents to be delivered to Servicer, regardless of the manner in which the insurance policy is endorsed. Although Servicer shall cause the Agency to be named as first mortgagee, Servicer must cause Servicer's address to be used in the endorsement in lieu of the address of the Agency.
- (e) Flood Insurance. Sellers are responsible for and warrant compliance with the provisions of the National Flood Insurance Act of 1968 and the National Flood Insurance Reform Act of 1994, as amended, whenever such provisions would be applicable to any Mortgage Loans sold to the Agency. Flood Insurance is required by Federal law if at anytime during the term of the loan the lender or servicer determines that the property is in a special flood hazard area (SFHA). If the originating lender determines that the property being financed is located in a special flood hazard area, the borrower is required to obtain flood insurance at the time of origination. Coverage purchased must have a "life of the loan" provision that will enable the loan to be transferred to a subsequent servicer or sub-servicer without cost and with interruption of coverage.

- (f) Insurance Coverage Varying From Above Requirements. Insurance coverage which does not meet the foregoing requirements will be considered on a case-by-case basis by the Agency upon request by Seller. The Agency may require such additional coverage as it may deem necessary in connection with any case or group of cases.

3.321

Legal Description.

- (a) General. The legal description as set forth in the Mortgage Title Insurance policy and other documents must match the survey, be approved by the title company, and be in one of the following basic forms:
1. Metes and bounds;
 2. Lot and block on recorded map or plat.
- (b) Metes and Bounds. A metes and bounds description should comply with the following standards:
1. The beginning point should be established by a monument located at the beginning point, or by reference to a nearby monument;
 2. The sides of the mortgaged property should be described by giving the distances and bearings of each. In lieu of bearings it is equally acceptable to use the interior angle method, provided that the beginning point is located on a dedicated public street line or other properly fixed line or the course of the first side can be otherwise properly fixed;
 3. The distances, bearings and angles should be taken from a recent survey, or recently recertified survey, by a licensed civil engineer or licensed land surveyor;
 4. Curved courses should be described by data including:(i) length of arc; (ii) radius of circle for the arc; (iii) chord distance and bearing;

Exception - if deemed locally adequate by prudent private institutional investors, when a curved course is part of a dedicated public street or road line, that course may be described merely by indicating the distance and direction which that course takes along the street line from the end of the previous course;
 5. The legal description should be a single perimeter description of the entire plot. Division into parcels should be avoided unless a special purpose of the specific loan is served. Division would be necessary, however, if the plot is located on two sides of a

public way. (It is also customary in many areas to describe an easement appurtenant to a fee parcel by using a separate description).

- (c) Lot and Block Description. A description composed of lots and blocks which includes reference to a recorded map or plat on which said lots and blocks are delineated is usually deemed adequate.
- (d) Additional Acceptable Descriptions. A description of a parcel bounded on all sides by dedicated streets or alleys can acceptably refer to the bounding lines of the streets or alleys alone.

SECTION 3.4 PROPERTY ELIGIBILITY REQUIREMENTS

3.401 Property Restrictions. No portion of the Eligible Property may be used or intended for trade, business or non-residential purposes.

- (a) The property must include only one lot, which cannot be subdivided under the current applicable zone restrictions. If there is more than one lot a letter will be required from the Municipal Zoning Officer stating the minimum lot size and that the property cannot be subdivided without a variance. The property must include only one building which is designed for and can reasonably be expected to be used for residential purposes. The land appurtenant to the residence must include only such land as is necessary to maintain the basic livability of the residence.
- (b) HMFA requires that the lots over one acre in size will require a letter from the Township Zoning Officer stating the minimum lot size and that the property cannot be subdivided without a variance.

3.402 Eligible Dwelling Types.

A residential building located in the State of New Jersey which is (i) an existing Single Family Dwelling (ii) a newly constructed Single Family Dwelling which has never been occupied; (iii) a 2-4 family dwelling that has been used as a residence for the previous five years; or (iv) a new or existing 2 family dwelling located in a Target Area that will be used for residential purposes (need not meet the five year requirement). A building or condominium unit shall not qualify as an Eligible Property if any portion is used or intended to be used for non-residential purposes. A building in which the mortgagor cannot legally occupy a unit within sixty days of closing shall not qualify as an Eligible Property.

3.403 Requirements for Multiple-Unit Dwellings.

- (a) The building must have been occupied as a residence for at least five (5) years immediately preceding the closing date, provided, that a unit may have been vacant during such period if the unit was, from the time previously occupied as a residence, continuously held out for

residential use and not occupied for any portion of such period on connection with a commercial or business use.

- (b) A property check report is required on all existing 2-4 family Multiple-Unit Dwellings. This report must provide the following information: five year title history, indicating names of title holders and dates of title conveyances and property census tract. This report must be issued by a credit reporting company or other business enterprise engaged in the business of providing title search information.
- (c) Two to four unit structures. Mortgagors must be able to occupy one unit of the dwelling within 60 days of closing for the property to be eligible.
- (d) Target Area only, building may be a new 2 family dwelling and the property need not meet the five year requirement.
- (e) In the state of New Jersey three to four unit buildings are subject to the Hotel and Multiple Dwelling Health and Safety Act, N.J.S.A. 55:13A-1 et seq. Properties coming under the Act must be registered with the State Department of Community Affairs and are required to have a Certificate of Inspection from the DCA Bureau of Housing Inspection or its designated local inspector. Owners of three to four unit buildings are issued a "Green Card" as evidence that the property has passed the State inspections.
 - 1. Lenders must show evidence that a three to four unit building has been registered with the State of New Jersey by providing the Certificate of Registration.
 - 2. Lenders must request copies of any pending violation notices issued by the State and a copy of the "Green Card" only if one exists.

Lenders must document their files as to the basis of any determinations made concerning the existence of a "Green Card". In addition, where a "Green Card" does not exist the borrowers should be made aware that the State may require them to correct any violations noted as a result of a future State inspection.

3.404

Acquisition Cost Limits. The maximum acquisition cost of the property as defined in Section 3.405 below, may not exceed the amounts indicated in the applicable Term Sheet and in no case will exceed the maximum permitted by the Code.

For purposes of this section: An existing residence is defined as a dwelling which has been previously occupied as a residence. New construction is defined as a dwelling which has recently been constructed and has never been occupied as a residence. Conversions are considered existing residences unless the structure has undergone substantial rehabilitation and received Agency approval as qualifying as new construction.

3.405

Acquisition Cost.

- (a) Acquisition Cost is defined as the cost of acquiring a residence (which does not include property such as an appliance, a piece of furniture, a radio, etc., which under applicable law is not a fixture), from the seller as a completed residential unit and includes the following:
1. All amounts paid, either in cash or in kind, by the purchaser (or a related party or for the benefit of the purchaser) to the seller (or a related party or for the benefit of the seller) as consideration for the residence.
 2. If a residence is incomplete, the reasonable cost of completing the residence whether or not the cost of completing construction is to be financed by a loan under the Mortgage Program.
 3. The acquisition cost of a residence does include where a residence is purchased subject to a ground rent, the capitalized value of the ground rent. Such value shall be calculated using a discount rate equal to the yield of the bonds.
- (b) The term "Acquisition Cost" does not include the following:

1. The usual and reasonable settlement or financing costs are excluded from Acquisition Costs. Settlement costs include title and transfer cost, title insurance, survey fees, or other customary costs. Financing costs include credit reference fees, legal fees, appraisal expenses, "points" which are paid by the Mortgagor or other costs of financing the residence.

However, such amounts will be excluded in determining Acquisition Cost only to the extent that the amounts do not exceed the usual and reasonable costs which would be paid by the buyer where financing is not provided under the Mortgage Program. For example, if the purchaser agrees to pay to the seller more than a pro-rata share of the property taxes, such excess shall be treated as part of the Acquisition Cost.

2. The value of services performed by the Mortgagor or members of the Mortgagor's family in completing the residence is excluded. For purposes of the preceding sentence, the family of an individual shall include only the individual's brothers and sisters (whether by whole or half blood), spouse, ancestors, and lineal descendants. Where the Mortgagor builds a home alone or with the help of family members, the Acquisition Cost includes the cost of materials provided and work performed by sub-contractors (whether or not related to the Mortgagor), but does not include the input cost of any labor actually performed by the Mortgagor or a member of the Mortgagor's family in constructing the residence. Similarly, where the Mortgagor

purchases an incomplete residence the Acquisition Cost includes the cost of material and labor paid by the Mortgagor to complete the residence but does not include the imputed value of labor performed by the Mortgagor's family in completing the residence.

3. The cost of land which has been owned by the Mortgagor for at least two years prior to the date on which construction of the residence begins.

3.406

Requirements For Condominiums.

- (a) The Agency requires that 51% of the units in a project be under contract of sale to separate purchasers (at least 60% of which will be owner occupants) prior to purchase of any Mortgage Loan by the Agency.
- (b) The Agency will purchase Mortgage Loans for up to a maximum of 50% of the units in any one phase of a project. (The Agency's Underwriting Department will be able to tell you which projects have met the 50% level.) The Agency does not approve condominium projects. It is the Seller's responsibility to review the necessary documents and sign the Condominium Warranty (HMFA 0016).
- (c) The Mortgagor must receive fee simple interest in the real estate and a pro-rate share in the common elements. All common areas and facilities (including those that are part of an umbrella association) must have been completed.
- (d) The Seller must review the project documents and certify compliance with all warranties listed in the Condominium Warranty form. A copy of the certification must accompany the documents submitted for Prior Approval.
- (e) Condominium units will be subject to expanded Hazard Insurance requirements. In addition to the Master Policy carried by the Homeowner's Association, borrowers must secure coverage for all unit elements present at the time of purchase which are covered by the Mortgage as part of the unit, but not covered by the master policy. Such elements include: interior wall, floor and ceiling coverings; fixtures; fixed in place appliances; cabinets; and any other elements specifically defined in the condominium documents as the unit owner's responsibility.

Coverage will be satisfied by a Homeowner's Policy (HO-6). This policy should clearly indicate coverage provided for mortgaged property separately from personal property.

The amount of coverage required must be sufficient to restore the interior of the unit to its condition at time of purchase. The minimum acceptable coverage is \$50,000 unless documentation can be provided

which places the cost of restoring the interior portion of the unit at a lower value.

The cost of the additional insurance is to be included when calculating the monthly housing expense ratio. In addition, lenders must require that the first year premium is paid at the time of closing and escrow the appropriate funds at closing.

- (f) Seller warrants the applicable insurance coverage specified below has been obtained.
 - (i) A multi-peril type policy is required covering the entire condominium project providing minimum fire and extended coverage and all other coverage in the kinds and amounts commonly required by private institutional mortgage investors for projects similar in construction, location and use on a replacement cost basis in an amount not less than one hundred percent (100%) of the insurable value (based upon replacement cost). If there is a steam boiler in operation in connection with the mortgaged premises, there must be in force boiler explosion insurance evidenced by the standard form of boiler and machinery insurance policy and providing as a minimum, \$100,000 per accident per location.

Individual unit owners are required to insure all fixtures and all privately owned real property within the interior of their unit if not covered by the master policy. Coverage must be sufficient to reconstruct any interior damage sustained which is outside the master policy for the project's common elements.

If the condominium project is located in an area identified by the Secretary of Housing and Urban Development as an area having special flood hazards, a "blanket" policy of flood insurance on the condominium project must be maintained in the amount of the aggregate of the outstanding principal balances of the mortgage loans on the condominium units comprising the condominium project or the maximum limit of coverage available under National Flood Insurance Act of 1968 and the National Flood Insurance Reform Act of 1994, as amended, whichever is less.

The name of the insured under each required policy must be stated in form and substance similar to the following: "Association of Owners of the Condominium for use and benefit of the individual owners: (designated by name, if required).

- (ii) Each such policy must contain the standard mortgagee clause which must be endorsed to provide that any proceeds shall be paid to the Association of Owners of the Condominium for the use of and benefit of mortgagees as their interest may appear, or

must be otherwise endorsed to fully protect the Agency's interest.

- (iii) The association of owners must have fidelity coverage against dishonest acts on the part of directors, managers, trustees, employees or volunteers responsible for handling funds belonging to or administered by the condominium association of owners if the condominium project has more than five (5) units.

The fidelity bond or insurance must name the condominium association of owners as the named insured and shall be written in an amount sufficient to provide protection which is in no event less than the sum of three months assessments on all units in the project plus the association's reserve funds. In connection with such coverage, an appropriate endorsement to the policy to cover any persons who serve without compensation shall be added if the policy would not otherwise cover volunteers.

- (iv) The association of owners must have comprehensive policy of public liability insurance covering all of the common elements, commercial spaces and public ways in the condominium project. Such insurance policy shall contain a "severability of interest" endorsement which shall preclude the insurer from denying the claim of a condominium unit owner because of negligent acts of the condominium association of owners or other unit owners. The scope of coverage must include all other coverage in the kinds and amounts required by private institutional mortgage investors for projects similar in construction, location and use. Liability coverage shall be for at least \$1,000,000 per occurrence, for personal injury and/or property damage.

The Agency will consider waivers to the condominium requirements (a) through (d) for public purpose projects.

3.407

Pre-Manufactured and Manufactured Housing.

- (a) Pre-manufactured housing (commonly known as "modular homes") which meets the BOCA Code and the New Jersey Uniform Construction Code, and either is completed at the factory and assembled on site or roughed in at the factory and assembled and finished on site is eligible under the Agency's standard underwriting criteria.
- (b) Manufactured housing (commonly known as "mobile homes") which meets the HUD Code is also eligible for Agency financing, however, the following requirements apply:

PROPERTY STANDARDS FOR MANUFACTURED HOUSING

1. The unit must have been constructed after June 2, 1976.
2. The unit must be permanently attached to the owner's lot with a basement, crawl space or slab. Units on piers or posts will be accepted only if the appraisal indicates piers and posts are typical for the area and if such piers and posts are located below the normal frost line. Units with piers or posts must also have acceptable foundation facing.
3. Scattered site units must be a minimum of 14 feet wide and must contain a minimum of 840 square feet.
4. All manufactured homes must be comparable to site-built housing and have a residential appearance. The unit should meet the following property standards as well:

Exterior wall finish shall consist of one of the following:

Hardboard horizontal lap siding
 Horizontal lap aluminum siding
 Vertical hardboard and batten
 Horizontal lap fiberboard siding
 Horizontal lap vinyl siding
 Imitation stucco
 Cedar Shake
 Exterior grade plywood panels

Roofing should include:

Pitch of at least 2" in 12"
 One foot (1') overhang
 Roofing material must be either composition, wood or tile

The property should contain an attached carport or garage
 A matching storage shed is desired if there is no garage

5. All installations must be approved by a Design Approval Primary Inspection Agency (DAPIA).

UNDERWRITING GUIDELINES FOR MANUFACTURED HOUSING

1. The property including the improvement represented by the manufactured housing unit must be real property and be recordable as such in the county deed and mortgage records. under New Jersey law, and supporting evidence in the form of an attorney's opinion or title insurance policy must be provided. Improvements registered or licensed with the New Jersey

Division of Motor Vehicles or with a similar agency in another jurisdiction are not eligible for Mortgage Loan financing.

2. Furniture may not be included in the contract sales price, appraised value, or Acquisition Cost of the unit; however, fixed kitchen appliances, laundry appliances and carpeting may be included.
3. If the land on which the unit is built is subject to ground rent; all Agency guidelines under Section 3.310 must be adhered to.

3.408

New Development Requirement.

- A. To the extent that the Agency has made a specific allocation of funds to finance Mortgage Loans for development projects, including condominium projects, no more than the greater of 25 units or 50% of the units in any such development, including condominium projects, may be financed with Mortgage Loans, except that up to 10% of the aggregate principal amount of Mortgage Loans may be used to finance over 50% of the units in developments of over 50 units which are designed to meet the fair share housing plan of a municipality within the meaning of the Fair Housing Act (N.J.S.A. 52:27D-301 et seq.), provided that no such development contains more than 125 units. Where developments are phased, the limitations set forth in this paragraph shall apply to each phase. The Agency, however, may exceed the aforementioned 10% limitation and use up to 25% of the aggregate principal amount of Mortgage Loans to meet the fair share low and moderate income housing obligations of developing communities as long as the developments represented by the aggregate amount of the Mortgage Loans in excess of said 10% have project approval by Mortgage Insurers or other reviewers so long as each development contains 25 or fewer units.
- B. Any development with more than 25 units to be financed with Mortgage Loans must meet the criteria for approval by FNMA or FHLMC.
- C. No more than 20% of the aggregate principal amount of the Mortgage Loans may be specifically allocated to finance the purchase of single family residences sold by the same corporation, partnership or sole proprietorship which is in the business of constructing, reconstructing or rehabilitating single family residences.
- D. No more than 20% of the aggregate principal amount of the Mortgage Loans may be specifically allocated for any one development or condominium project.

3.409

New Construction, Mortgagor Built Homes. A Mortgage Loan may be provided for a single-family dwelling which is newly constructed on behalf of the Mortgagor. The Agency does not provide construction financing, except

for specific rehab/repair loans as may be authorized from time to time and detailed in a program Term Sheet.

If the Mortgagor owns the land free and clear, the Mortgage Loan may not exceed the cost of constructing the residence.

If the land has been purchased under a short term (less than 24 months) loan, the Mortgage Loan may incorporate the balance of the short-term loan as well as the cost of constructing the residence up to the maximum loan to value ratio of 97 percent or such greater amount as may be permitted by the Agency and the mortgage insurer. (This also would pertain to Mortgagor constructed Pre-manufactured and Manufactured Housing.)

For purposes of the Acquisition Cost limits, if the land was purchased within the two years of date construction on the residence begins, the cost of the land must be included in the total Acquisition Cost.

3.410 Termite Inspection. When a termite inspection is required, the report should be made based on the following criteria:

- (a) NPCA-1, Wood Destroying Insect Infestation Inspection Report must be used.
- (b) The inspection report can be no older than six (6) months prior to the loan closing.
- (c) If any box other than ("No visible evidence of infestation from wood destroying insects was observed.") is checked, further explanation is required.
 - 1. If there is evidence of insects, treatment must be performed.
 - 2. If evidence of prior infestation is observed, the form must specify that prior treatment was made and that there is no evidence of damage.
 - 3. If there is evidence of damage, the certification must also state that the damage has been repaired.
 - 4. If the termite report does not state damage was repaired, we require a report from a licensed contractor stating repairs were made in a workmanlike manner. If the damage is structural, the contractor must state the property is structurally sound after the repairs have been completed.
- (d) National Pest control Association Form NPCA-99a, Subterranean Termite Soil Treatment Builder's Guarantee and Form NPCA 99b, New Construction Subterranean Termite Soil Treatment Record are designed to be used together and will help buyers be properly informed as to the type of guarantee issued by the builder as required by HUD, as well as, information as to actual work performed by the licensed pest control

company to reduce the chances of infestation by the subterranean termites.

The licensed pest control company must complete NPCA-99b. The new form must be used as an attachment to the builder's form, NPCA-99a. The builder is responsible for distributing the completed forms.

SECTION 3.5 TARGET AREAS (ELIGIBLE NEIGHBORHOODS)

Seller shall determine if the property is located in a Target Area by review of the Target Area Street directories.

If the property is located in a Target Area the following special provisions apply:

(a) Waiver of First-Time Home Buyer Requirement:

A Mortgagor purchasing an Eligible Property which is located in a Target Area (Eligible Neighborhood) is not required to be a first-time homebuyer and the three-year tax return requirement is waived. However, all documentation for credit underwriting still applies, and the Affidavits (Section 3.6) are required. If Mortgagor owns real estate at time of application, Mortgagor will be required to sell said property and the HUD-1 Settlement Sheet for sold property must be submitted at time of purchase.

(b) The maximum Acquisition Cost Limits (Section 3.404. 3.405) are higher for homes located in the Target Areas than for homes located in the same Statewide county areas.

SECTION 3.6 AFFIDAVITS REQUIRED.

3.601 Property Seller's Affidavit. Sellers will be required to obtain an executed Property Seller's Affidavit (HMFA 161), prior to submission for Prior Approval. If Seller has any reason to believe that any misrepresentation exists in this affidavit, Seller should immediately notify the Agency of such possible misrepresentation.

3.602 Mortgagor's Affidavit. Sellers will be required to obtain an executed Mortgagor's Affidavit (HMFA 300) prior to the submission for Prior Approval. If Seller has any reason to believe that any misrepresentation exists in this affidavit, Seller should immediately notify the Agency of such possible misrepresentations.

PART IV MORTGAGE LOAN REVIEW AND PURCHASE REQUIREMENTS

SECTION 4.1 PRIOR APPROVAL

4.101 The Agency Review. In order that the Agency may make a determination that a prospective Mortgage Loan complies with all of the requirements of the Code, Sellers will be required to submit certain documentation to the Agency for Prior Approval.

After review of the requested documentation, the Agency will advise Seller of loan eligibility by issuing a commitment. All terms and conditions of this commitment must be strictly adhered to. All underwriting conditions, issued at time of approval, must be submitted to the Agency prior to the loan closing. After review by the Agency's underwriters the Seller will receive a copy of the amended commitment. Any conditions that cannot be met prior to closing must be fully documented.

The mortgage amount and P&I figures issued on the Agency commitment are the same figures to be utilized when preparing the note. If an applicant decides to change the mortgage amount and/or term, the loan must be underwritten again. Any closed loans that differ from the Agency commitment will be subject to correction or not purchased.

Loan Files:

Seller shall create a file for every loan it registers with the Agency. The Agency considers each loan file to be comprised of three parts: the a) Servicing File part, b) the Bond Program Tax Compliance File part, and c) the Collateral Documents File part. These procedures apply to the Home Buyer Program (First-time Home Buyers, Urban Home Buyers, 100% Financing Program, Home Plus and Purchase-Refinance Rehabilitation loans). These files shall contain the original forms with signatures and not photocopies (the FHA underwriting file being the only exception). Separate procedures apply for Police and Fire Retirement System loans.

The Servicing File shall be comprised of two parts. Part I is the Credit File which includes the loan application, verifications, credit report, appraisal, TILA, letters, forms and all other documents, required by this Guide, the Mortgage Purchase Agreement, the Term Sheet and applicable federal and State law together with any other items customarily attendant to originating and submitting a loan for the Agency's credit commitment (refer to Section 4.102 for additional details). Part II is the Closing File which includes, among other requirements as may be made known by the Agency, certified true copies of the mortgage and note, HUD 1 Settlement Statement, title commitment and binder, certified true copy of the assignment of mortgage to the Agency, PMI and pool certificates (except FHA, VA or RECD), survey, lender's commitment letter to mortgagors, affidavit of title, NPCA-1 wood destroying insect certification, appraisal, FHA, VA or RHS requirements, and Notice of Recapture (refer to Section 4.301 for additional details).

The Bond Program Tax Compliance File shall include the Mortgagor's Affidavit (HMFA # 300), the Property Seller's Affidavit (HMFA# 161), copies of the applicant's 3 years Tax Returns with original signatures certifying that they are true copies and pay stubs and the Recapture notice, (HMFA #520), Reservation Acknowledgement (HMFA # 306) together with

any other items attendant to originating and submitting a loan for the Agency's bond program tax compliance review.

The Collateral Documents File shall include the recorded mortgage, original note, mortgage insurance certificate or guaranty, and original recorded assignment of mortgage. The original Note must be submitted at the time of purchase. The other Collateral Documents must be submitted not later than 120 days after the loan closing or the loan may be subject to repurchase. The Agency will require a late delivery fee of \$10 per day for each document received after the 120th day unless the delay is occasioned by circumstances beyond the Seller's control.

Delivery and Possession of Loan Files:

At the time of submittal of a Mortgage Loan application for the Agency's underwriting commitment: The Seller shall deliver to the Agency the original Part I (Credit File) of the Servicing File and the original Bond Program Tax File together with a postage or delivery fee to be set by the Agency from time to time. If the Agency issues a commitment to purchase the Mortgage Loan it will retain and the original Part I (Credit File) of the Servicing File and the original Bond Program Tax File. If the Agency declines to commit to purchase the Mortgage Loan both the original Part I of the Servicing File and the original Bond Program Tax File will be returned to the Seller.

At the time of submittal of the closed Mortgage Loan for purchase by the Agency: The Seller shall deliver to the Agency the original Part II (Closing File) of the Servicing File and the Collateral Documents File.

The Agency will forward the Servicing File to its sub-servicing agent for file maintenance and will forward the Collateral Documents File to the document custodian for secure file maintenance and "trailing document" follow up. The Agency will maintain the Bond Program Tax File in its own facility.

At the time of purchase all files included in the Servicing File shall become the property of the Agency.

4.102 Conditional Prior Approval Documentation Package. The following original loan documents for each prospective Mortgage Loan secured with an acco-type fastener, must be forwarded to the Agency and arranged in the order listed with the first item on top.

1. Transmittal Summary (FNMA 1008), with HMFA Loan Number clearly displayed.
2. Property Seller's Affidavit (HMFA 161) properly notarized.
3. Mortgagor's Affidavit (HMFA 300) properly notarized
4. Mortgage insurance commitment (when applicable)
5. Uniform Residential Loan Application (FNMA 1003)
6. Property Check Report (Multiple-Unit Dwellings only)

7. Executed Contract of Sale
8. Mortgage Loan Reservation Acknowledgment (HMFA 306)
9. Verification of Employment (FNMA 1005) or current pay stubs only if VOE is unavailable.
10. Copies of applicant's immediate past 3 years tax returns with original signatures certifying that they are true copies (or IVES report as permitted in Section 3.103).
11. Verification of Deposit (FNMA 1006) or three months copies of bank statements. In the event the verification does not indicate sufficient cash assets to consummate the closing, additional verification indicating sufficient cash assets must be attached.
12. Credit Report (tri-merge) on Mortgagor and all Co-Mortgagors, with credit scores.
13. As appropriate, typed FNMA Form 1004 (single family) or FNMA Form 1025 (two-to-four family), FNMA Form 1073 (Condominium) appraisal form or FHA fee appraisal completed in accordance with HUD valuation procedures.
14. Appraisals should include two clear, descriptive photographs, one photograph should be a front view of the property, showing the complete improvements, and the second a street scene showing neighboring improvements.
15. VA Form 26-8320, Certificate of Eligibility, if applicable.
16. VHS certificate
17. Wood Destroying Insect Report is required on all existing units, except as otherwise directed in this Guide.

For all FHA insured loans, VA loans and RHS loans it is the lender's responsibility to ensure loan package is complete and contains all FHA, VA and RHS required documents. Failure to provide an insured or otherwise acceptable loan, or, if HUD will not make payment on claim because of underwriting deficiencies, the Seller will be required to repurchase the loan. Agency staff will review loans for tax compliance. No warranty is implied as to its compliance with FHA, VA or RHS requirements and procedures. Agency reserves the right to reject all FHA, VA and RHS approved loans where the borrower's credit history is significantly weaker than that acceptable under the conventional program.

SECTION 4.2 MORTGAGE ADDENDUMS

4.201 Mortgage Riders. If applicable the following riders will be required to be recorded with mortgage.

- (a) Condominium Rider
- (b) PUD Rider
- (c) 1-4 Family/Tax Exempt Financing Rider (HMFA 612 revised 7/99)
(Must be used on ALL agency loans)
- (d) Home Plus Rider (HMFA 488)

SECTION 4.3 PURCHASE AND DELIVERY REQUIREMENTS OF MORTGAGE LOANS

- (a) Mortgage Schedule. Each submittal of Mortgage Loans shall be accompanied by a Mortgage Schedule (HMFA 101), regardless of the number of Mortgage Loans submitted for purchase. This form must include complete wiring instructions for each loan.
- (b) Payment Date and Amount. Within fifteen (15) business days of the submission for purchase of a Mortgage Loan, the Agency will complete its review of the submission documents and upon acceptance of such, make payment to Seller of the full amount due.

4.301 Date of Submission for Purchase

- (a) All loans must be closed and delivered to the Agency within 90 days of the date on the Agency commitment, unless otherwise stated in the applicable Term Sheet. A one time 30 day extension may be requested on existing properties, unless otherwise stated in the applicable Term Sheet. If the loan is for new construction, the loan must be closed and delivered to the Agency within 90 days of the date on the initial commitment. A one-time 90 day extension may be requested, unless otherwise stated in the applicable Term Sheet.
- (b) Submission Package. Sellers shall submit for purchase a document package which consists of the following:
 1. Purchase Submission Documents Transmittal (HMFA 100)
 2. Mortgage Schedule with reaffirmation of warranties (HMFA 101), with wiring instructions.
 3. Original Note
 4. Certified copy of original Mortgage, with 1-4 Family/Tax Exempt Financing Rider (HMFA 612 revised 7/99) attached.
 5. A certified true copy of the original Assignment of Mortgage in recordable form

6. The Title Insurance Binder fully marked up (if applicable), endorsed by an officer of the title company, or accompanied by a copy of the closing instructions to the closing agent.
7. Evidence of Mortgage Loan Insurance/Guaranty (as applicable: pool, primary mortgage insurance, FHA, VA, RHS).
8. Property Plat or Survey
9. Uniform Settlement Statement (HUD 1)

NOTE: The HUD-1 should reflect all itemized out-of-pocket charges previously paid by the mortgagor. This would include the actual amounts paid for the appraisal and the credit report as two separate items.

10. Mortgagor's Affidavit of Title
 11. As applicable for Target Area loans only, a copy of the closing statement on Mortgagor's previous residence, if any.
 12. Notice to Mortgagor of Potential Federal Recapture Tax HMFA 520
 13. **Such other documents as the Agency may request.**
- c. Documentation must be presented as a total package and will not be accepted piecemeal. The Agency will review the submission for purchase and if acceptable will purchase the Mortgage Loan within fifteen (15) business days. If the submission package is unacceptable, it will be returned.

The loan delivery package may be resubmitted, but only prior to the termination of the 90 day, or as extended, reservation period, for purchase within 30 days of the date the package is returned to the Seller, along with a \$100.00 re-review fee.

- d. RESPA states that ***“A Servicing Transfer Statement is required if the loan servicer sells or assigns the servicing rights to a borrower's loan to another loan servicer. Generally, the loan servicer must notify the borrower 15 days before the effective date of the loan transfer. As long the borrower makes a timely payment to the old servicer within 60 days of the loan transfer, the borrower cannot be penalized. The notice must include the name and address of the new servicer, toll-free telephone numbers, and the date the new servicer will begin accepting payments.”***

This is the language used by RESPA to set a standard for the “transfer of servicing statement” that is given to the borrower of a property at the time of closing or 15 days before the transfer date of the mortgage.

Note that should a payment be due within 30 days of our purchase of a Mortgage Loan, that payment will be deducted from the purchase and the loan will be purchased at a reduced principal balance.

For example:

If a closing takes place on October 10, (with a first payment due December 1,) and the purchase of this loan is not until November 1, the Agency will purchase this loan after the December balance. This will give the Seller adequate time (15 day minimum) to advise the borrower to make the January 1, installment to the Agency's sub-servicer. IT SHOULD BE NOTED THAT THE CORRESPONDING T&I PAYMENT WILL BE DEDUCTED FROM THE PURCHASE AT THE SAME TIME. THEREFORE, A LOAN HISTORY WILL STILL BE REQUIRED.

Execution of this action will eliminate Sellers need to forward payments to us after our purchase and remove further confusion for the borrower as to which payment is sent properly.

The Agency will also require that any T&I disbursements, i.e. FHA and Private Mortgage Insurance premiums, due within that 30 day timeframe be paid by the Seller.. This amount will be adjusted as part of the T&I at the time of purchase by the Agency.

SECTION 4.4 POSSESSION OF MORTGAGE LOAN FILE

4.401 Possession by Seller/Servicer

The Seller (applies to traditional servicers and not to sub-servicers under contract with the Agency) is responsible for establishing and maintaining individual mortgage files and for maintaining accurate accounting and mortgagor payment records. The Agency has the right to examine, at any reasonable time, any and all records that pertain to mortgages we hold in our portfolio, any and all accounting reports associated with those mortgages and mortgagor remittances, and any other reports and documentation that we consider necessary to assure that the Seller is in compliance with our requirements.

Mortgage files and records include the original individual mortgage files, permanent mortgage account records, and accounting system reports that are sent to the Agency.

The mortgage servicer should use the individual mortgage file established at the time of origination to accumulate other pertinent servicing and liquidation information - such as property inspection reports, copies of delinquency repayment plans, documents related to insurance loss settlements, foreclosure notices, etc.

4.402 Possession By Document Custodian

The Seller must forward or direct to be forwarded the following final documents to a FNMA approved custodian. The custodian must meet all standards set by FNMA for storage of final documents.

1. Original signed Note

2. Mortgage Insurance Certificate, if applicable
3. VA Guaranty Certificate, if applicable
4. Loan Note Guarantee, if applicable
5. Property Seller's Affidavit
6. Mortgagor's Affidavit
7. Original Mortgage
8. Assignment of Mortgage

PART V. DELEGATED UNDERWRITING

SECTION 5.1 Delegated Lender Eligibility Requirements

Loan underwriters who have participated in the Agency's bond mortgage programs for two full program years and are an owner or employee of a HMFA approved Seller will be eligible to apply for Delegated Underwriting designation.

To be an eligible Delegated lender for conventional loans, a Seller must be an approved Fannie Mae or Freddie Mac seller/servicer and must have on staff an Agency approved Delegated Underwriter who will be responsible for underwriting loan to be sold to the Agency by the Seller.

- (a) The underwriter must demonstrate sufficient knowledge of the Agency's programs to effectively underwrite. Underwriter will be required to submit a minimum of ten loans to the Agency for approval. Approval will be based on the Agency's concurrence that the decision reached by the underwriter on the 10 prior approval loans was correct and that there were no significant conditions.
- (b) Seller must designate at one full-time Delegated Underwriter to review and approve Agency loans. The underwriter must be a reliable and responsible professional skilled in mortgage evaluation with at least 3 years recent experience reviewing both credit applications and property appraisals associated with one to four family dwellings. The designated underwriter must submit a resume to the Agency for review and be approved by the Agency.
- (c) The designated underwriter must complete training with Agency staff prior to being approved. The Agency may waive this requirement when the lender can demonstrate that the assigned underwriter has sufficient skill and knowledge of the Agency's program requirements.
- (d) Once an underwriter has received Delegated Underwriting approval, the Agency will continue to review loan files according to the following schedule after closing:

Complete review of the first ten loans completed under the delegated underwriting approval.

Review of 50% of loans 11 through 30.

Review of 25% of loans 31 through 50.

Review of 10% of all loans above 50.

Reduction in the number of loans reviewed will be based on the underwriter's performance. If Agency staff determines that loans have not been underwritten in accordance with the Agency's guidelines or if loan files are incomplete or the documents in the loan file are outdated, delegated underwriting approval will be revoked

To be an eligible Delegated Underwriter for FHA loans, Seller must be an FHA Direct Endorsement lender and for VA loans, lender must be a VA Supervised Lender and must have on staff an Agency approved Delegated Underwriter who will be responsible to review all loans sold to the Agency by the Seller.

- (a) Agency will accept underwriting determination made by FHA/VA approved underwriting and credit analyst. Failure to provide the Agency with an MIC within the time specified in the Seller's Guide will result in the loan being returned to the lender for repurchases.
- (b) The designated underwriter must complete training with Agency staff prior to the lender receiving Delegated Underwriting approval. The Agency may waive this requirement when the lender can demonstrate that the assigned underwriter has sufficient skill and knowledge of the Agency's program requirements.

These loans (FHA/VA) will be counted in with the conventional loans to determine underwriter's acceptability on the volume and quality in determining their Delegated Underwriting approval.

SECTION 5.2 Delegated Underwriting Loan Submission

Loans submitted for tax compliance prior to closing will be reviewed for tax and program compliance. This means the loan complies with all requirements of the Code regarding mortgages funded with Mortgage Revenue Bonds. These requirements include but are not limited to: income limits, purchase price limits, first time homebuyer status, past three years tax returns (or IVES report and as applicable for 1040A and 1040EZ State tax returns) in accordance with Section 3.103), target area status, use of Agency forms, limited appraisal review for number of lots, size of property and age of property for 2 to 4 units.

If approved, you will receive an approval communication from the Agency that will include conditions the Seller is required to satisfy before submitting for the Mortgage Loan for purchase. Mortgage Loans submitted with open conditions will not be purchased.

Loans submitted for Tax Compliance after being closed will be reviewed the same as above, however, if there are conditions on the loan, you will have to satisfy them within 15 days. If after 15 days you have not satisfied the conditions, the loan will not be purchased and will be returned.

PART VI. LOANS UNDER 100% FINANCING LOAN PROGRAM

SECTION 6.1 Eligible Properties

The following guidelines are to be utilized for loans originated under the 100% Finance Loan Program. Only lenders who have NJHMFA approved Delegated Underwriters on staff are permitted to originate these loans. Mortgage Loans under these guidelines will need to conform to the following criteria:

Statewide Affordable Housing Program

Program is available in Agency approved affordable housing developments or projects located outside of Urban Aid municipalities and Target Cities to purchase units that are certified as affordable. Purchase price of these units may not exceed 70% of the appraised market value. One hundred percent (100%) of the sales price and closing costs can be financed, provided the LTV ratio is not greater than 70%, no mortgage insurance will be required. Purchase price and income limits will not exceed the Federal Income limits utilized as part of the Home Buyer Program.

Urban Projects Program

Program established by the Agency to provide Mortgage Loans to qualified buyers purchasing units in an Agency approved housing development located anywhere within the municipal boundaries of a Target City (defined as any municipality in which there is located an Eligible Neighborhood pursuant to Section 3.5 hereof) or anywhere within the boundaries of an "Urban Aid" (as defined by Statute) municipality. Eligible purchasers of homes may borrow up to 100% of the lesser of the appraised fair market value or the sales price and usual and reasonable financing costs. Purchase price and income limits will not exceed the Federal limits utilized as part of the Home Buyers Program. No mortgage insurance will be required.

Mortgage Opportunities Program

Program established by the Agency to provide mortgages, without requiring a downpayment and which also permits financing of certain closing costs, to buyers of newly constructed units in Agency approved housing developments. Currently, approved housing developments are limited to those receiving construction subsidy from the Agency, however, the Agency may from time to time approve other housing developments. The maximum loan to value ratio is the lesser of 100% of the sales price plus closing costs or the appraised value. No mortgage insurance is required under this program.

HOPE Program

Program established by the Agency for Mortgage Loan applicants in the employ of an employer that has agreed under the Home Ownership for Performing Employees (HOPE) program to guarantee for a portion of their loan. Eligible purchasers of homes may borrow up to 100% of the lesser of (a)

the appraised fair market value or (b) the sales price and usual and reasonable financing costs.

The employer of the eligible purchaser is required to give a guaranty to the Agency in an amount equal to twenty percent (20%) of the original principal amount of the applicable loan. Where applicable, the amount of such guaranty could not be less than the portion of the Mortgage Loan for which payment was deferred at the time of origination. The guaranty must be for a minimum of five (5) years duration unless the purchaser leaves the employ of the employer in which event such guaranty must be for a minimum of two (2) years commencing from the date of the Mortgage Loan. Payments under the employer guarantees are not Pledged Property under the General Resolution. No mortgage insurance is required under this program. Standard FNMA/FHLMC underwriting shall be applied.

6.101

Loan Originations

Properties must be located in one of the Agency's approved projects. No other properties, except in the HOPE Program, will be accepted. All loans are originated, processed and underwritten according to guidelines specified in the Home Buyer's Program with the following exceptions:

- (a) Applicants at time of loan application must provide evidence of the greater of \$800 or the required prepaid escrows as their own assets, plus the required application fee.
- (b) Qualifying ratios for all 100% loans are 28/36 unless:
 - 1. The applicant is making a down payment toward the purchase of the property of at least 10% and these funds are from their own assets; or
 - 2. Applicant has demonstrated an ability to devote a greater portion of income to basic needs like housing expenses, which means rent for the previous 12 months is equal to or greater than the proposed housing expense; or
 - 3. Applicant has demonstrated an ability to accumulate savings of at least six (6) months PITI remaining after closing AND to have maintained a good credit history; or
 - 4. Applicant is in a debt free position.
- (c) Applicants purchasing a two (2) family unit must be able to support the PITI from gross monthly income or qualify under one of the following options:
 - 1. Three (3) month reserve after closing.
 - 2. Maximum 95% loan to value ratio.
 - 3. Qualifying rental income not to exceed 50%.

- (d) Applicants who have been a defendant in a mortgage foreclosure proceeding within the past five (5) years are not eligible to apply. Borrower may be considered if the proceedings were completed at least five (5) years and borrower had established a good credit rating.
- (e) Although the 100% Loan Financing Program is limited to Agency origination or Delegated Lender origination, all loans will be underwritten by the Agency and signed by the Underwriter, Director or Assistant Director of Single Family and any Chief or the Executive Director.
- (f) Applicants are required to attend three (3) counseling sessions. Two (2) pre-purchase sessions must be completed before a closing date is scheduled and Lender will direct applicant to their post closing session approximately two to three months after closing. The counseling agency will be compensated by the Agency and they will certify to the Agency and Lender that the applicant has successfully completed the required sessions.

A list of counseling agencies can be obtained by calling the Agency Hot Line.

PART VII. COMMUNITY HOME BUYERS PROGRAM (CHBP)

All terms, conditions, requirements and guidelines that are in effect on Home Buyer Program loans are in effect on Community Home Buyer loans with the following exceptions:

SECTION 7.1 CREDIT AND PROPERTY UNDERWRITING REQUIREMENTS

- 7.101 Cash Down Payment - The maximum LTV on CHB loans is 100%, however, the applicant must have 2% of their own verifiable assets for closing costs. The remaining closing costs may come from a gift, nonprofit grant or an unsecured loan from a nonprofit or other public entity.
- 7.102 Credit and Underwriting Guidelines - Follow the same guidelines as HBP loans. Reference Part III, Section 3.204.
- (a) MONTHLY HOUSING EXPENSES-TO-INCOME RATIO. The Agency will require that the monthly housing expenses (first mortgage payment plus escrows) not exceed 33% (for a conventional loan) of the mortgagor's stable monthly income.
 - (b) MONTHLY DEBT PAYMENT TO INCOME RATIO. The Agency will normally require that the total amount of monthly housing expense plus all other monthly payments on all installment debts (having remaining terms of 10 months or more) not exceed 38% of the mortgagor's stable monthly income.
- 7.103 Home Buyer Education. Conventional borrowers with loan-to-value ratios higher than 97% must participate in homeownership and personal counseling/education sessions sponsored by the Lender or mortgage insurer. Borrowers must be issued a Completion Certificate after the counseling is completed. All Community Home Buyers Program borrowers must participate in the counseling sessions and be issued a Certification upon completion.
- 7.104 Closing Costs - Closing costs and other prepaid items may be paid by the borrower from personal resources. Closing costs may also be paid from gifts from family members or grants from nonprofit organizations, or other public entities. Escrow payments must be paid by the borrower, from their own liquid assets.

PART VIII.

SPECIAL PROGRAMS

8.101

Requirements for Qualified Purchase/Rehabilitation Loans.

"Qualified rehabilitation loan" is defined under the Code to mean any owner financing provided in connection with (i) a qualified rehabilitation or (ii) the acquisition of a residence with respect to which there has been a qualified rehabilitation, but only if the mortgagor is the first resident of the residence after completion of the rehabilitation.

All loans must be originated and insured under FHA 203(k) guidelines and the following code requirements:

- (a) at least 20 years must have elapsed between the date the building was first used and the commencement of physical work on such rehabilitation begins,
- (b) at least 50 percent of the existing external walls remain in place as external walls,
- (c) at least 75 percent of the existing external walls remain in place as internal or external walls, and
- (d) at least 75 percent of the existing internal structural framework remains intact.
- (e) For purchase properties the cost of the rehabilitation will be a minimum of 25% of the mortgagor's adjusted basis in the residence (including land).
- (f) Refinance/Rehabilitation Loans are acceptable FOR THIS PROGRAM ONLY. The cost of the rehabilitation must be equal to or greater than the minimum cost of improvements. The minimum cost of improvements is figured as follows:

$$\begin{array}{r} \text{Original Purchase Price} \\ + \text{Repairs previously made} \\ = \text{Acquisition Cost (A)} \end{array}$$

$$\begin{array}{r} \text{Acquisition Cost} \times 1.3333 = \text{(B)} \underline{\hspace{2cm}} \\ \text{Subtract Acquisition Cost} \text{(A)} \underline{\hspace{2cm}} \\ = \text{Minimum Cost of Improvements (C)} \underline{\hspace{2cm}} \end{array}$$

Anticipated Rehabilitation Work must be equal to or greater than the minimum cost of improvements (C) to meet property eligibility.

Refinance/rehabilitation loan properties in which there is NO current outstanding mortgage do NOT qualify.

- (g) Purchase price and income limits apply, as indicated in the applicable Term Sheet.

8.102 Purchase/Rehabilitation Loan Forms - Since these loans differ in requirements under the Code, special HMFA forms are required:

1. Qualified Purchase/Rehabilitation, Property Seller's Affidavit, HMFA 161A.
2. Qualified Purchase/Rehabilitation, Mortgagor's Affidavit, HMFA 300A.
3. Qualified Refinance/Rehabilitation, Mortgagor's Affidavit, HMFA 300B, for refinances only.
4. Qualified Purchase/Rehabilitation, Acquisition Cost Worksheet, HMFA 164A.

8.103 Requirement for Qualified Home Improvement Loans. The Code permits origination of "Qualified Home Improvement Loans" which is defined to mean a financing of alterations, repairs and improvements on or in connection with an existing, owner-occupied residence by the owner thereof if such items substantially protect or improve the basic livability or energy efficiency of the residence and the amount of such loan does not exceed \$15,000. Improvements which qualify under this definition include the renovation of plumbing or electric systems, the installation of improved heating or air conditioning systems, the addition of living space or the renovation of a kitchen. Recreational or entertainment facilities such as swimming pools, tennis courts or saunas do not qualify.

Qualified Home Improvement Loans must be originated and insured under Title 1 of the National Housing Act of 1934, as amended. Only improvements that add to the basic livability and energy efficiency of the residence are eligible.

Properties being improved must be the primary residence of the borrower.

Income limits apply, as indicated in the applicable Term Sheet.

All loans regardless of loan amount must have a lien recorded.

Qualified Home Improvement Loans are only available when funding is made available by the Agency for such loans, subject to such conditions as are set forth in the applicable Term Sheet.

PART IX MISCELLANEOUS

- (a) The Agency shall have the right, at any time and from time to time, during normal business hours, to examine and audit any and all of the Seller's records or accounts pertaining to any Mortgage Loan sold to the Agency under the Mortgage Purchase Agreement.
- (b) The Agency shall have the right to require the Seller to furnish such documents as the Agency, in its sole discretion and from time to time, deems necessary in order to determine that the provisions of this Seller's Guide have been complied with.
- (c) The provisions of this Seller's Guide governed by the Code or covenanted to bond holders cannot be waived or modified. Certain other guidelines may be waived or modification at the Agency's discretion, but only in writing and only for good cause supported by the following:
 - 1. A specifically detailed waiver request must be received in writing with any back-up documentation to support the request.
 - 2. The Agency may request additional information in order to make its determination. All information must be supplied in a timely manner or the waiver will be considered as denied.